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IMPACT OF THE PRESIDENT'S 1987 BUDGET
(Field Hearings)

ORIGINAL

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HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

FEBRUARY 10, 11, 12, 13, AND 14, 1986

Printed for the use of the Committee on the Budget

Serial No. 99-12

Part 2

CHICAGO, IL, LOWELL, MA, TALLAHASSEE, FL, DALLAS, TX, AND
SAN FRANCISCO, CA

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IMPACT OF THE PRESIDENT'S 1987 BUDGET

MONDAY, FEBRUARY 10, 1986

House of Representatives,
Committee on the Budget,
Chicago, IL.

The committee met, pursuant to notice, at 9 a.m., in the Illinois Room, Jane Addams' Hull House, Circle Center, University of Illinois at Chicago, Hon. William H. Gray III (chairman of the committee) presiding.

The **Chairman**. The committee will now come to order. Before we begin this hearing of the House Budget Committee, we would like to recognize the chancellor of the University of Illinois, Donald Langenberg. He is acting as our host today, and has welcomed the committee already informally.

Mr. Chancellor, we are delighted to be here, and we would love to have you give an opening word at this time.

Mr. **Langenberg**. Thank you, Mr. Chairman.

Mr. Chairman, members of the committee, on behalf of the University of Illinois at Chicago, I would like to welcome you all here for this first budget field hearing of this session.

You are meeting, as you have just had occasion to learn, on a rather historic site. On this site, Jane Addams for many decades here in Chicago carried out the work which led her ultimately to win the Nobel Peace Prize. She helped educate many generations of new Americans, some new by birth, some new by recent immigration, and she did that here on the near West Side of Chicago where you are now meeting.

The Jane Addams Settlement House is now gone and in its place here stands the University of Illinois at Chicago where in many ways I think we are carrying on Jane Addams' tradition. A few yards to the south you will find our engineering faculty and students learning how to create the economic future of Chicago and of Illinois and of the Nation.

A few yards to the north you will find our College of Architecture, learning how to build for that future. A mile or so to the west, the hospitals of the University of Illinois is providing patient care as it does every day, 24 hours a day, 365 days a year, and our health professional colleagues are training those who will provide that care in the future.

In many ways, that future will be determined by what you and your colleagues do here today, and in the weeks and months to come. This hearing is about the budget, but more than that, Mr. Chairman, I believe it is about where this country is going. All of us here have a very deep personal concern for that future.

We wish you all good luck and, again, welcome to the University of Illinois at Chicago.

The CHAIRMAN. Thank you very much, Mr. Chancellor. We also want to acknowledge that the chancellor of this great university spent some time in the City of Brotherly Love. I am glad to see him as a person who has spent some time in the city I have the privilege of representing.

Good morning ladies and gentlemen. As chairman of the House Budget Committee, it is a pleasure to be here in Chicago. The home, I might add, of the Superbowl champions, the Chicago Bears. Also, I would like to welcome Mayor Washington, Marian Wright Edelman, and all the other distinguished visitors we will hear today.

Joining me here today are Congressman Marty Russo, a member of the Budget Committee, and representative from the Chicago area. He has invited us to the Windy City. Also with us is Congressman Pat Williams, another member of the committee from the State of Montana.

Joining us will also be Congressman Hayes, Congresswoman Cardiss Collins, and Congressman Jim Moody from the neighboring State.

Our hearing today in Chicago is the first in a series of five which the committee is holding in different regions of the country. These hearings will give the committee an opportunity to hear the comments of a broad range of witnesses on the 1987 Federal budget. The President's budget submission of February 5 has begun the budget debate for this year. In 2 months Congress and the President must agree on a budget which will lead the country toward economic security.

The President's budget proposes a set of priorities for the country which in my view go far beyond the issue of how many dollars we will spend or save. These proposals are designed to achieve the administration's goal of limiting the role of the Federal Government and supporting many domestic programs, while increasing the spending for the Pentagon and for foreign aid.

Members of the Budget Committee share the administration's commitment to reduce the large deficits projected for the next few years. Deficits of $200 billion threaten the stability of our economy and affect the ability of all Americans to achieve many of their personal goals.

We are also committed to maintaining a strong national defense and good international relations. The only question is how we go about achieving these diverse goals. The witnesses today can help us determine if the priorities set in the President's budget will allow American cities and American families to achieve and maintain the fiscal strength and individual independence requirement to sustain a strong national recovery.

The President's eloquent State of the Union Address last Tuesday had a central theme; the American family and the family budget. The concern about the state of the American family is justified, and we join the President in that concern for we face a crisis in many families.

That is as important to the future of the Nation as its fiscal health. A few summary statistics set a chilling note. Over the past 10 years poverty among children has increased 52 percent.

Children have displaced older Americans as the poorest age group. In 1984, 12.9 million or one-fifth of all children in America were poor. About 6 million of these children were in female-headed households.

Over 2 million of these children were in male-headed households. Since 1979, poverty rates for male-headed households rose faster than in female-headed households. The impact of the Federal budget on the family budget is therefore a critical factor to consider as we develop the 1987 budget.

In fiscal year 1981 when this administration took office, the Federal Government provided $85.6 billion for programs which helped children and families. The President's 1987 budget proposes to allocate $70 billion for these programs in 1987, a reduction of $15 billion below the amount provided for children's programs 6 years ago.

In Illinois, these cuts in children's programs would be at least $734 million.

Other major Federal grant programs, the budget proposals could mean cuts of another $470 million to the State, a total of over $1.2 billion. What would be the impact of these kinds of cuts on the city of Chicago and other Illinois communities?

Will the State and individual cities be able to adjust their own budget to maintain adequate levels of services to children and families? We will hear this morning from Marian Wright Edelman, the president of the Children's Defense Fund, who will describe in some detail what the budget will do to families and children.

We will hear from Pat Sharp from the Hull House, an institution which epitomizes the average American's commitment to helping urban youth and families to achieve success through generosity, hope, and hard work. She can tell us how some of these proposals could impact the Chicago community.

We will also hear from Russell Arndt and Jean Leising from Indiana. They will share with us their views of the American farm family and the potential impact of the budget proposals.

We want to thank all of the witnesses who have taken the time to prepare statements. We want to thank all of those who have given up their time to come and testify. This is your hearing. It is taking the budget process outside of the Beltway in Washington to Main Street America so that Americans can hear what the problem is and also testify.

We are here to receive your views about the Federal budget effects and how it impacts upon your city, your families, and your communities.

Unfortunately, time will not allow us to have as many witnesses as we would like. However, the record will remain open and anyone who did not have an opportunity to testify today will be able to submit their testimony in writing and it will become a permanent part of the record just as those who are testifying today.

Let me conclude by making a comment. First of all, we would like to point out that this is the second year that we have taken the budget hearings to the American people. The purpose of these hearings to discuss the problem of a deficit that have grown from $50 billion to over $200 billion in the last 5 years, a national debt that has gone from $914 billion in 1980 to over $2 trillion in 1986, and also to look at the proposed solution that has come from the President of our Nation. Also, we shall discuss other potential solutions in solving that national crisis of red ink.

Unfortunately, some of our colleagues are not here today. It would appear that the Reagan budget and the Republicans' vanishing act has given new meaning to the phrase "cut and run." The President cuts and they run.

I should point out to everyone here today that Congressman Russo has extended invitations to everyone to participate. Every member of the Illinois delegation bipartisanly; every member of the House Budget Committee which is made up of 33 members, has been invited to participate and has known in advance of these hearings.

I should point out that we do expect bipartisan participation in Florida and in California. I wanted to set the record clear on that issue.

Now I would like to have an opening statement from our distinguished colleague, who is a member of the Budget Committee from the State of Illinois, and from the city of Chicago, Congressman Marty Russo, who is acting as our host. Congressman Russo.

Mr. Russo. Thank you very much, Mr. Chairman. I would ask that my prepared statement be made part of the record, because I don't want to delay the hearings anymore but I would like to say one other thing. I really feel sorry for those individuals who were picketing outside, not only because it is very cold outside, but mainly because they have been misled by the leadership as to this meeting being closed to Republicans.

In fact, I have personally reached out to the Governor of the State of Illinois and asked him to testify and when he indicated he could not because it was the state of the State message, we asked him then if he would send a representative and he declined to do so.

We reached out to Cabinet members in Washington and asked them if they would be willing to come to Chicago and testify and, again, they refused to do so. I have talked to members of the committee, Republican members of the committee, and asked them again if they would be willing to send us some names and participate in the witness list, and they said to me that they are boycotting the hearing.

We have done our best. In fact, three of the witnesses on the list are Republicans, very famous individuals, in fact, and so we have tried to do our best to make this a bipartisan hearing.

All I can say is I can appreciate why the Republicans are hiding from this budget. It is not this committee that is making them hide. Anyone who says that is just a liar. We have done the best we can and if my President proposed this budget, I would run, too, and hide.

I just want to make the record very clear that we have done everything we possibly could to get bipartisan participation and it is unfortunate that those individuals who are freezing outside in this cold weather picketing were misled by their own leadership, but it is typical of this administration.

Mr. Chairman, I yield back the balance of my time.

[The prepared statement of Mr. Russo follows:]

Prepared Statement of Hon. Marty Russo

Mr. Chairman, members of the Budget Committee, welcome to the city of Chicago. I am proud to have you here today, in our city, and in the neighborhood I grew up in, a neighborhood that contains the historic Hull House.

We all realize the purpose of our visit. It is grounded in the American system of democracy. By holding these hearings across the Nation, the Budget Committee is taking the pulse of our people. If we do not know the concerns of the people first hand, if we do not invite our citizens to participate in the process of creating our Nation's budget, we risk losing their confidence in the process and their faith in their Government.

This Nation faces a deep crisis. The ever-growing budget deficits threaten the health of our economy. Our challenge is great—to reduce these deficits in the most sensible manner possible. Our budget decisions ought to be based on a program's value to our society and its citizens. The choices we make can contribute to the healing of our fiscal problems, or they can worsen the wounds. So as we struggle to achieve the goal of deficit reduction, it is essential that we not blunder forward blindly, ignoring the consequences of our actions.

That's what these hearings are for—to help us make the right choices about the budget. We need to know what you think is likely to happen if we accept the President's priorities as he has established them in his administration's budget.

The President released his budget proposals last week. His path to the future is well known. We have been traveling down it for 5 years. We know the signposts along that path—hundreds of billions of dollars for a military establishment which many feel is handicapped by its own bulky weight. Yet other national priorities are treated differently. Health care, transportation, education, child care, crime prevention, agricultural development, receive far less funds and far less attention.

Today, we want to get your reaction before we take yet another step down the President's path. With the help of educators, local officials, farmers, community workers, we can build a better budget. A budget which is balanced not only in terms of dollars and cents, but also in terms of priorities.

So again, I welcome you all to Chicago. I know I speak for all my colleagues when I tell you how much we look forward to listening to you and learning from you as we begin these hearings.

The Chairman. Thank you, Congressman Russo, for inviting us to come to Chicago and for being our host and also being a member of this committee. We welcome the opportunity to begin the second year of hearings where we take the budget to Main Street America so people can hear and participate.

We will begin our hearings this morning with testimony from Hon. Harold Washington, the mayor of the city of Chicago. Mr. Mayor, we welcome you and your staff. Let me say as a former colleague who served in the House of Representatives with you, it is good to be in Bear country.

STATEMENT OF HON. HAROLD WASHINGTON, MAYOR OF THE CITY OF CHICAGO

Mr. Washington. Thank you very much, Chairman Gray.

Mr. Russo. Mr. Mayor, we also did send him Buddy Ryan.

The Chairman. We want to thank you for that. We shall take advantage of it when the Eagles win the Superbowl next year.

Mr. Washington. Even though you are in my town, I am in your committee, so I won't take up your time.

Thank you very much, Mr. Chairman, for bringing your Budget Committee hearings here and to, once again, this year to express to the American people your commitment to them, your confidence in them, and your utter display of that by bringing budget hearings out into the open where people can express themselves.

Your acts are contagious because my administration has the same approach to budget hearings. We believe in taking hearings into the communities in the same sense you believe in taking the budget hearings into the cities of this great country.

I also want to commend Congressman Russo for doing what he always does very well, and that is to make certain that his city is properly considered in any discussion dealing with national questions such as your budget.

I know it took yeoman service for Congressman Russo to get the budget hearings here. I want to let you know, Congressman, all Chicago is proud you have the clout to do that, and you exercise that in the interest of justice, right, and truth.

Thank you, again, for serving Chicago so well, serving the whole Chicago region so well.

To the other distinguished former colleagues, Congressman Moody, Congresswoman Collins, Congressman Williams, and Congressman Hayes, welcome to Chicago once again. Mayor Koch is in town on a series of speeches. I had breakfast with him this morning.

We discussed the nature of your visit. He sends his best to you and joins me in this statement which I intend to make this morning.

I have with me today Ms. Bess Donaldson, who is our housing commissioner in Chicago, and Ron Gibbs, our Washington representative in the District of Columbia who attempts to serve the Illinois Congressman as well as others on behalf of the city of Chicago and standing in the wings, Tom Elsey, our deputy budget director, who will assist me in fielding any technical questions that may come out.

It is appropriate that you have chosen Chicago to be the first location for this round of budget hearings. We consider Chicago to be the crown jewel of the American heartland. The hub city of a vast commercial empire that stretches from the Appalachians to the Rockies, from the Great Lakes to the Gulf of Mexico. Chicago has for over 150 years conjured up images of all that is exciting about America, from its legendary days on the American frontier to its youth as America's brawny industrial giant.

From its rich history of intellectual ferment and social experimentation immortalized by Hull House in the neighborhood here as well as up the street at the site of Haymarket exactly 100 years ago today; to its present history-making tumultuous period of reform through which we are going.

There is no city in America more American than Chicago. There is no city that has benefited more from the social and economic forces that made America great and there is no city that has felt the consequences of America's changing role in the world more than we have here in Chicago.

We have always played our full part in the American dream along with other cities, large and small, throughout the United States. From our tall buildings there has shown a beacon across the country and around the world drawing men and women of every color, every tongue, to the promise of a better life.

They came from Europe, they came from Latin and South America, they came from Asia, they came from Appalachia and the American South to work in our stockyards and railroad yards and our factories, mills, wherever they could find their places in that great crown of American progress.

These cities have built America. Our cities are ready for the influx. Our municipal services were strained to supply their needs. The economic system worked and a political system caught up; we built our great skyscrapers and vast network of neighborhoods around the energies of the many who came together to make urban America.

These are the people who dreamed the American dream and brought it to its reality. These are the men and women who have made America a nation of cities not special interests but of cities which are the enclaves and repositories of our great culture.

Through their efforts, these cities become the magnificent repositories of American culture with colleges and universities, museums, theaters, and public parks, the transportation centers and financial districts, the public houses and newspapers and later, broadcasting companies, all worked together to renew American culture from the center outward.

They formed the gravitational nucleus for the urban and suburban regional networks that only a generation earlier would have required a full day's travel just to cross. To this day, the driving force of the American dream is a dynamic of a rich, flourishing urban center and a dependent regional system that reaches far beyond, in some places covering entire States. But like the other great cities of America, Northeast and Midwest, in our time, Chicago has encountered nearly overwhelming challenges.

The cities used to be the shining example of the American dream. Now we are sometimes referred to as the "rust belt." We have found ourselves caught up in a vortex of economic and demographic transitions that have changed the face of America over the past 30 years.

The urban spirit that made America great must now retool and rebuild to meet the challenges of the 21st century. We will do this, make no mistake about it.

The spirit of Chicago is as strong as ever and the genius is undimmed, but we need and we demand help. We are not asking for foreign aid from Washington. We are not asking for charity.

We are not a special interest group lobbying for our pet programs. We are the people of America and we are tending the fires that keep America going.

In that effort, all we are asking is that the national priorities be clarified and that a reasonable percentage of our tax dollars be returned to take care of our needs. We are warning that unless this happens, we are facing the specter of a plunge in our living standards that will haunt the Federal Government and the political parties responsible for generations to come and rightly so.

Here in Chicago we are right now undergoing a painful municipal budget debate as we work to cut the cost of city government in search for a reliable revenue source that will grow with our needs through taxes that will be fairly distributed across the special economic spectrum.

In less than 3 years we have cut almost 15 percent of our city payroll and many management deficiencies. We have eliminated an inherited deficit of $100 million. We have made the maximum use of our Federal programs such as urban development action grants, community development block grants, IRB's and all the rest.

We have refinanced our general obligation bonds to permit a new program of capital improvements in every neighborhood of Chicago, even as we passed another issue of revenue bonds to finance the world's largest airport expansion program at O'Hare Airport which today services 40 million people, but which in the next 3, 4 to 5 years will double that to about 85 million people.

We have made responsible finance a top priority of our administration without losing sight of the social-economic development programs which are the ultimate end of fiscal health. We have turned all the economic statistics around.

Chicago is working and working reasonably well under the stress of a longstanding financial strain made more tender by budget cuts on the Federal level of the past 4 years not to even get into what is in the offing based upon this administration's program.

This process of regeneration, the role of the Federal Government has been critically important. The Federal Government has been a key element in a formula of self-help in Chicago partnership together with public initiatives at the city level, private sector investment, and State funds. That formula for a Chicago partnership finds full expression in the private/public programs reaching across the city helping to get young people away from drugs and gangs and onto productive career tracks, transforming eyesore abandoned buildings into family housing, starting of new businesses that provide jobs for our people and revenue for our government and turning blighted commercial areas into thriving, bustling shopping centers.

We are working closely with developers and builders, businesses, community organizations, not-for-profit organizations, and neighborhood agencies. We put young people to work in the summer and keep them in school during the rest of the year.

We are keeping more babies healthy and alive and providing them care as they grow so their parents can join the workforce without having to choose between their responsibilities as employees and citizens and their responsibilities as parents.

We are helping to feed those who are in economic need and delivering hot meals to older and disabled people who might otherwise find their sustenance only in institutions. We are providing efficient transportation to hundreds of thousands of people daily to and from their jobs.

We maintain the streets and sidewalks and alleyways, the sewers and curbs and gutters protecting our people and their jobs against inevitable wear and tear of the city's infrastructure which is old, old, old, and in comparison with other cities in the Midwest and Northeast ranks on the level of debilitation.

Those are the activities and services that determine our quality of life. They are the front line of the public sector more immediate in the lives of every American than any other level of government. And yet, of course, we could not provide these services without assistance.

Cities do not have the resources, either financial or organizational, to do this work unaided. That is why we have an economic partnership. But it is a partnership that will not work without Federal assistance.

We are losing almost $156 million in fiscal year 1986, $156 million in what we have characterized as Ronald Reagan's "war on the cities." As a result, we are being forced to make cuts in community development, rental rehabilitation, job training, highway resurfacing and public transportation.

Our budget office calculates that we will lose a minimum of another $268 million in 1987 which at this point is more than 10 percent of our total budget. The effects, obviously and clearly would be disastrous. The Chicago partnership would be devastated. How could there be a private/public partnership when we have nothing to bring to the table. It would be hard put to indicate which losses will create the greatest hardship in Chicago.

Without general revenue sharing, there is a grotesque, jagged wound that tears through the heart of our municipal budget. Chicago lost $20.7 million in general revenue sharing in fiscal year 1986 which intensified the current municipal budget debate, but that is nothing compared to the disaster that would face us if the GRS were to be eliminated altogether as the President intends.

To absorb those cuts, the city would be forced to reduce programs and services as follows. Consumer services will have to lay off 70 percent of our people; health lay off 406 people; human services, 52 people; sanitation, 776 people; consumer services, we lost 370, 32 percent of the budget; human services, 32 percent of the budget; sanitation, 30 percent of the budget.

Without urban development action grants and the Economic Development Administration, how will we replace their contribution to the search for commercial and industrial investment? Our budget office estimates the loss of as many as 1,500 jobs directly and up to 5,900 jobs indirectly, and the loss of 150 housing units.

Without the housing support, how will we be meeting our housing crisis? Since 1981, housing programs have been cut 68 percent. This 1987 proposal would result in a 91-percent reduction in housing programs for low-income families.

Weatherization cuts will result in the loss of an additional 550 rehab units. UDAG cuts will result in the loss of another 667 units and 6,000 low-income families will be without weatherization help.

Without the community development block grants, who will support the hundreds and hundreds of ongoing efforts to make the communities clean and livable, to enable city government to work directly with families and individuals providing heat assistance, food, counseling, the full range of minimal support services to the city's poor communities?

Our budget office anticipates that our successful antigang program which has cut gang-related homicides and robberies by 20 percent in less than a year would be cut in half; 10,000 medical trips for the elderly and disabled would be eliminated; 80,000 home-delivered meals for the disabled would be cut off; 140 model block programs would be axed; 55,000 patient visits would not be made to our health centers and other hardships affecting thousands of our children, our women and our men.

Without job training assistance, what will become of our youth? With the proposed $208 million in cuts, 4,750 young men and women would not receive job training services in the summer of 1987.

What are we buying with the cuts that have been suggested? What do we get instead? Our fiscal policy advisers warn that the loss of general revenue sharing, the Gramm-Rudman Act, and the Tax Reform Act have the collective potential for negative stimulus, or contraction of the economy.

Citing an analysis by Ward Econometric Associates last year, they say cutting the deficit to zero in 1991 using only spending cuts and assuming no offsetting stimulus will bring the economy to a grinding halt and push the unemployment rate to 17 percent in a few years.

This scenario is made worse by tax reform proposals that will restrict our financial resources and our capacity limits. Our financing department warns administrative rules that have been proposed for tax exempt bonds would all but eliminate tax exempt bonds as a financial tool at the State and local levels.

The tax exempt status of revenue bonds themselves has been challenged. Specific purposes of tax exempt bonds such as airport construction, solid waste incinerators, and support for urban development have been questioned. Tax increment financing bonds have been included in the proposed bond cap and their use has been severely limited.

The attack on CDBG programs alone would leave behind the loss of 8,000 new local jobs. It would cut nearly one-third of the services of a dozen city departments. The attack on financing options would cause the loss of over 9,000 construction jobs, over 20,000 secondary jobs and over $100 million in lost State and local revenues. The loss in Federal revenues would be $75 million.

It should be noted by contrast finding risk capital to purse these local projects and creating the local jobs and tax revenues through tax debt increments create over $26 million in additional revenues to the Treasury.

As my fiscal advisers point out, clearly, the risk to local economic development and stability is far greater than the potential Federal revenue reward. The effects could hardly be worse if we were attacked by a foreign enemy. That is why it seems to us that in this 1987 budget proposal as in his occasional ideological rhetoric regarding the great cities of America's Midwest and Northeast, Ronald Reagan has clearly declared war on the city of Chicago.

The President will find that the mayors and municipalities and county officials across America are not going to let this happen to their people. He may be a Teflon president, but we are Velcro mayors. We can't hide from the pain and suffering this budget will cause. We aren't going to let him get away with it.

Mayors across the United States are organizing in defense against Reagan's war on the cities. The U.S. Conference of Mayors, meeting at Gracie Mansion in New York last month pledged itself to resist cuts in revenue sharing and throughout the State of Illinois and in many other States across the country, mayors are organizing to ensure that fairness and fiscal common sense are applied at the State level on the battleground of Ronald Reagan's war on cities. Our municipal agenda for Governor Thompson's capital bill of Illinois is only one element of that struggle.

We are going to continue the statewide dialog. The crisis in the Federal budget is like a forest fire, indiscriminately threatening every species. Mayors and other local officials, Democrats and Republicans alike, are coming together in common cause against a common danger.

We can't let it happen, Mr. Chairman; you have underestimated the strength of the people in the American cities and the mayors who represent them. America is a nation of cities. The people of America's cities have made America great. We are not going to let them become casualties in Ronald Reagan's war against the cities.

As they say in the great game of chess, en passant—you shall not pass—with this budget. Thank you.

[Testimony resumes on p. 29.]

[The prepared statement and attachments of Mr. Washington follow:]

PREPARED STATEMENT OF HON. HAROLD WASHINGTON

Congressman Gray, Members of the Committee, ladies and gentlemen.

Good morning, and thank you for the opportunity to put our concerns on the record regarding President Reagan's 1987 budget proposal.

It is appropriate that you have chosen Chicago to be the first location for this round of budget hearings. We consider Chicago to be the crown jewel of the American heartland, the hub city of a vast commercial empire that stretches from the Appalachians to the Rockies, from the Great Lakes to the Gulf of Mexico.

Chicago has, for over 150 years, conjured up images of all that is exciting about America, from its legendary days on the American frontier, to its youth as America's brawny industrial giant; from its rich history of intellectual ferment and social experimentation, immortalized here at Hull House, as well as up the street, at the site of Haymarket, exactly 100 years ago; to its present history-making, tumultuous period of reform.

There is no city in America more American than Chicago. There is no city that has benefitted more from the social and economic forces that made America great. And there is no city that has felt the consequences of America's changing role in the world, more than we have here in Chicago.

We have always played our full part in the American dream, along with the other cities, large and small, throughout the United States. From our tall buildings there has shone a beacon across the country and around the world, drawing men and women of every color, every tongue, to the promise of a better life. They came from Europe, they came from Latin and South America, they came from Asia, they came from Appalachia and the American South, to work in our stockyards and railroad yards, in our factories and mills, wherever they could find their place in that great drama of American progress.

In these cities, they built America.

Our cities were rarely ready for the influx; our municipal services were strained to supply their needs. But the economic system worked and the political system caught up, and we built our great skyscrapers and vast network of neighborhoods around the energies of the many who came together to make urban America.

These are the people who dreamed the American dream and brought it to reality. These are the men and women who made America a nation of cities.

Through their efforts, these cities became the magnificent repositories of American culture, where the colleges and universities, the museums and theaters and public parks, the transportation centers and financial districts, the publishing houses and newspapers and later the broadcast companies, all worked together to radiate American culture, from the center outward. They formed the gravitational nucleus for urban and suburban regional networks that only a generation earlier would have required a full day's travel just to cross. To this day, the driving force of the American dream is the dynamic of a rich, flourishing urban center and a dependent regional system that reaches far beyond, in some places covering entire states.

But like the other great cities of the American Northeast, and Midwest, in our times Chicago has encountered nearly overwhelming challenges. These cities used to be the shining example of the American dream. Now we are sometimes referred to as the "Rust Belt."

We have found ourselves caught in a vortex of economic and demographic transitions that have changed the face of America over the last thirty years. The urban spirit that made America great must now retool and rebuild to meet the challenges of the 21st century.

We will do this, make no mistake. The "Spirit of Chicago" is as strong as ever, and the genius is undimmed. But we need help.

We are not asking for "foreign aid" from Washington. We are not asking for charity. We are not a special interest group lobbying for our pet programs.

We are the people of America, and we are tending the fires that keep America going. In that effort all we are asking is that the national priorities be clarified, and that a reasonable percentage of our tax dollars be returned to take care of our needs. And we are warning that unless this happens, we are facing the spectre of a plunge in our living standards that will haunt the Federal government—and the political parties responsible—for generations.

Here in Chicago we are right now undergoing a painful municipal budget debate, as we work to cut the costs of city government, and search for a reliable revenue source that will grow with our needs, through taxes that will be fairly distributed across the social and economic spectrum. In less than three years we have cut almost 15% of our city payroll, and implemented many management efficiencies. We have eliminated an inherited deficit of $100 million. We have made the maximum use of such Federal programs as UDAG's, CDBG's, IRB's and the rest. And we have refinanced our general obligation bonds to permit a new program of capital improvements in every neighborhood, even as we passed another issue of revenue bonds to finance the world's largest airport expansion program at O'Hare. We have made responsible finances a top priority of our administration, without losing sight of the social and economic development programs which are the ultimate end of fiscal health.

We have turned all the economic statistics around. Chicago is once again a city that works.

In this process of regeneration the role of the Federal government has been critically important. The Federal government has been a key element in a formula for self-help in Chicago, together with public initiatives at the City level, private sector investment and State funds.

That formula for a Chicago Partnership finds full expression in the private-public programs reaching across the City, helping to get young people away from drugs and gangs and onto productive career tracks, transforming eyesore abandoned buildings into units of affordable family housing, starting up new businesses that provide jobs for our people and revenue for our government, and turning blighted commercial areas into thriving, bustling shopping centers.

We're working closely with developers and builders, businesses, community organizations, not-for-profit organizations and neighborhood agencies. We put young people to work in the summer and keep them in school during the rest of the year.

We're keeping more babies healthy and alive and providing them day care as they grow, so their parents can join the workforce without having to choose between their responsibilities as employees and citizens, and their responsibilities as parents. We're helping to feed those who are in economic need, and delivering hot meals to older and disabled people who might otherwise find their sustenance only in institutions.

We're providing inexpensive, efficient transportation to hundreds of thousands of people daily to and from their jobs. We're maintaining the streets and sidewalks and alleyways, the sewers and curbs and gutters, protecting our people and their jobs against the inevitable wear and tear on our city's infrastructure.

These are the activities and services that determine our quality of life. They are the front line of the public sector, more immediate in the lives of every American than any other level of government.

And yet, of course, we could not provide these services without assistance. Cities do not have the resources, either financial or organizational, to do this work unaided. That's why we have the Chicago Partnership. But it is a partnership that will not work without Federal assistance.

We're losing almost $156 million in fiscal year 1986, in what we have characterized as Ronald Reagan's war on the cities. As a result we are being forced to make cuts in community development, rental rehabilitation, job training, highway resurfacing and public transportation.

Our budget office calculates that we will lose a minimum of another $268 million in 1987.

The effects would be disastrous.

The Chicago Partnership would be devastated. How can there be a private-public partnership when we have nothing to bring to the table?

I would be hard put to indicate which losses will create the greatest hardship in Chicago.

Without general revenue sharing there is a grotesque jagged wound that tears through the heart of our municipal budget.

Chicago lost $20.7 million in GRS in FY1986, which intensified the current municipal budget debate. But that's nothing compared to the disaster that would face us if GRS were to be eliminated altogether as the President intends.

To absorb these cuts, the City would be forced to reduce programs and services as follows:

	Reductions (percent)	Layoffs
Consumer services	37	70
Health	32	406
Human services	32	52
Sanitation	30	776
Sanitation	29	16
Total		1,320

Without UDAGs and the Economic Development Administration how will we replace their contribution to the search for commercial and industrial investment in Chicago? Our budget office estimates the loss of as many as 1,500 jobs directly, and up to 5,900 indirectly, and the loss of 150 housing units.

Without the housing support, how will we meet our housing crisis? Since 1981, housing programs have been cut 68%. The 1987 proposals would result in a 91% reduction in housing programs for low-income families. Weatherization cuts will result in the loss of an additional 550 rehabbed units. HODAG cuts will result in the loss of another 667 units. And 6,000 low income families will be without weatherization help.

Without the Community Development Block Grants who will support the hundreds and hundreds of ongoing efforts to make the communities clean and livable, to enable city government to work directly with families and individuals providing heat assistance, food, counseling, the full range of minimal support services to the city's poorer communities? Our budget office anticipates that our successful anti-gang program, which has cut gang related homicides and robberies by 20% in less than a year, would be cut in half; 10,000 medical trips for the elderly and disabled would be eliminated; 80,000 home delivered meals for the disabled would be cut out; 140 model block programs would be axed; 55,000 patient visits would not be made to our health centers; and other hardships affecting thousands of our children, our women, our men.

Without job training assistance, what will become of our youth? With the proposed $208 million in cuts, 4,750 young men and women would not receive job training services in the summer of 1987.

And what are we buying with the draconian cuts that have been suggested? What do we get instead?

Our fiscal policy advisers warn that the loss of General Revenue Sharing, the Gramm-Rudman Act and the Tax Reform Act have the collective potential for negative stimulus, or contraction, of the economy.

Citing an analysis by Wharton Econometric Associates last fall, they say that cutting the deficit to zero in 1991 using only spending cuts and assuming no offsetting stimulus, will bring the economy to a grinding halt, and push the unemployment rate to 17% in a few years.

And this scenario is made worse by tax reform proposals that would restrict our financing resources and our capacity limits.

Our Planning Department warns that administrative rules that have been proposed for tax exempt bonds would all but eliminate tax exempt bonds as a financing tool at the state and local levels. The tax exempt status of revenue bonds themselves has been challenged. Specific purposes of tax exempt bonds, such as airport construction, solid waste incinerators and support for urban development, have been questioned. Tax Increment Financing bonds have been included in the proposed bond cap, and their use has been severely limited.

The attack on our CDBG program alone would leave behind the loss of 8,000 new local jobs. It would cut nearly one-third of the services of a dozen city departments. The attack on financing options could cause the loss of over 9,000 construction jobs, over 20,000 secondary jobs, and over $100 million in lost state and local revenues. The loss in Federal revenues would be $75 million.

It should be noted that, by contrast, finding risk capital to pursue these local projects and incidentally creating the jobs and local tax revenues would, through taxable debt instruments, create only $26 million in additional revenues to the Treasury. As my fiscal advisers point out, clearly, the risk to local economic development and stability is far greater than the potential Federal revenue reward.

The effects could hardly be worse if we were attacked by a foreign enemy. That is why it seems to us that in his 1987 budget proposals—as in his occasional ideological rhetoric regarding the great cities of America's Midwest and Northeast—Ronald Reagan has declared war on the city of Chicago.

The President will find that the mayors and municipal and county officials across America are not going to let this happen to their people.

He may be a Teflon president, but we are the Velcro mayors. We can't hide from the pain and suffering his budget would cause. We aren't going to let him get away with it.

Mayors across the U.S. are organizing in defense against Ronald Reagan's war on the cities. The U.S. Conference of Mayors, meeting at Gracie Mansion in New York last month, pledged itself to resist cuts in revenue sharing.

And throughout the State of Illinois, and in many other states across the country, Mayors are organizing to insure that fairness and fiscal common sense are applied at the State level, another battleground of Ronald Reagan's war on the cities. Our "Municipal Agenda" for Gov. Thompson's capital program, "Build Illinois" is only one element of that struggle. We are going to continue the statewide dialog.

The crisis in the federal budget is like a forest fire, indiscriminately threatening every species. Mayors and other local officials, Democrats and Republicans alike, are coming together in common cause against the common danger.

We won't let it happen, Mr. President. You have underestimated the political strength of the people of America's cities and the Mayors who represent them.

America is a nation of cities. The people of America's cities have made America great. We are not going to let them become casualties in Ronald Reagan's war against the cities.

PROPOSED CUTS IN CHICAGO'S 1987 BUDGET

In 1985 federal funds for the city of Chicago totalled $762.7 million; in 1986 federal funds will total $607 million, a loss of $155 million.

And now the President wants to cut back federal funds to Chicago to $339.3 million in 1987.

This represents a cut of $423 million, or 56%, from 1985 to 1987.

Among the 1987 cuts he has proposed in Chicago:

	Cost in millions
Major programs:	
UDAG program eliminated	$6.6
EDA program eliminated	1.7
General Revenue Sharing eliminated	67.2
CSBG eliminated	7.1
Housing:	
Rental Rehabilitation eliminated	5.1
Weatherization eliminated	5.8
Rental Housing Development eliminated	8.3
Transportation:	
Interstate transfer 40% cut from 1986	39.8
Highway resurfacing 33% cut from 1986	8.5
CTA cuts:	
Operating assistance eliminated	48.8
Capital projects	56.2
Community Development Block Grants (preliminary figures, 14.7% cut)	12.6

* * * and we are still counting.

IMPACT ON CHICAGO OF FISCAL YEAR 1986 CUTS IN FEDERAL PROGRAMS

Federal budget cuts in City of Chicago programs are detailed in the following tables and graphs. An analysis of budget reduction impacts on a variety of City services is also provided. As a result of the appropriation process, close to $100 million will be lost in fiscal year 1986 City programs. An additional $28 million will very likely be cut under the Gramm-Rudman automatic reduction order that will sequester $11.7 billion from the Federal budget on March 1. The Office of Management and Budget has indicated that it will attempt to pass several deferrals and rescissions on fiscal year 1986 budget authority when Congress reconvenes January 21, thereby trimming another $25 million from the City of Chicago's appropriation. Cumulative losses to the City could be as high as $155 million or 20 percent less than funds available last year. Without restored funding, the City will be forced to eliminate many essential programs and services.

Cuts in the Community Development Block Grant program will have a devastating affect on the City. With an approximate 30 percent reduction or $27 million loss to the City's entitlement grant Chicago residents would see many essential health, housing, day-care and community programs substantially reduced or eliminated. Economic Development activities in the City will be stagnated with the termination of the Urban Development Action Grant and substantial cuts in the Economic Development Administration. Not only will these cuts mean a loss of federal support but millions of dollars in private investment will not be realized as developers lose a fundamental mechanism for forming public/private partnerships. With the loss of development initiatives next year, Chicago will lose approximately 8,000 new jobs.

Most City programs will be hit twice as hard as cuts in Community and Economic Development are compounded with cuts in General Revenue Sharing. Funds from General Revenue Sharing are used to support a variety of programs by supplementing departmental budgets. If the City loses this source of revenue either an unfair burden would have to be placed on the individual taxpayer to provide basic City services or the current service level of a dozen City Departments would have to be reduced by almost one-third.

Individual grants in Housing, Health and Human Services received a combined cut of approximately 15 percent. Juxtaposed with cuts in major grant programs this reduction is less severe, however, many grants are used to match both public and private leverage monies, hence, the City's ability to piece together financing packages by taking advantage of every available private and public source will be threatened. As a result of cuts in these programs, thousands of housing units won't be developed, several dozen health care, community and day-care centers will close or be substantially cutback in size, and approximately 15,000 adult and youth will not receive job training or placement services.

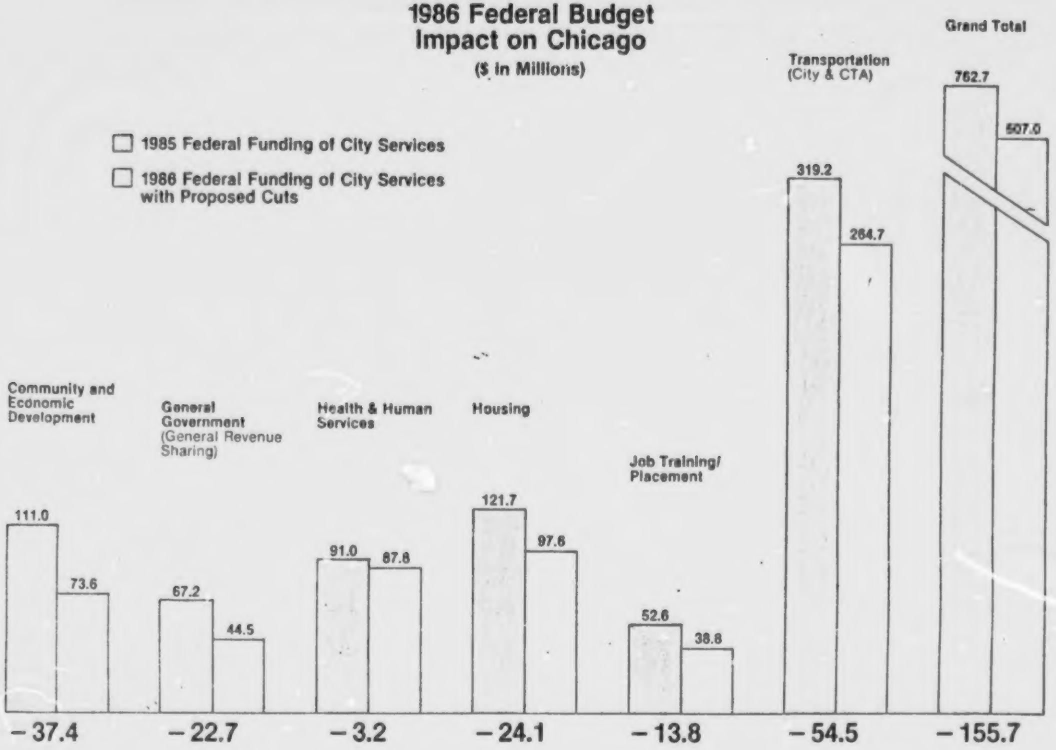
The final major program category to realize a substantial reduction in its appropriation next year is transportation. Close to $55 million will not be available next year for citywide capital improvement projects, highway resurfacing and CTA renovation projects. Without these funds additional maintenance delays and cost overruns will incur, which will cause further deterioration of the city's transportation infrastructure.

These cuts will definitely affect the quality of life for the residents of Chicago. The Federal government has a responsibility to continue supporting its urban centers in the areas of greatest need: health; housing; human services; employment opportunities and infrastructure. The cities cannot be expected to carry the bulk of the deficit reduction program. Therefore, it is essential to our livelihood that these funds be restored and further cuts adamantly opposed.

IMPACT ON CHICAGO OF CURRENTLY PROPOSED CUTS IN FEDERAL PROGRAMS DETAIL

[In millions of dollars]

	1985	1986	Loss
Community and economic development	$111.0	$73.6	-$37.4
General government (general revenue sharing)	67.2	44.5	-22.7
Health and human services	91.0	87.8	-3.2
Housing	121.7	97.6	-24.1
Job training/placement	52.6	38.8	-13.8
Transportation (city and CTA)	319.2	264.7	-54.5
Grand total	762.7	$607.0	-155.7



1986 Federal Budget Impact on Chicago

($ in Millions)

17

FISCAL YEAR 1986 IMPACTS ON CHICAGO RESULTING FROM FEDERAL BUDGET CUTS

Community and economic development

Fiscal year 1985 funding level	$111.0
Fiscal year 1986 proposed funding level	$73.6
Loss	$(37.4)
Percent	−33.7

COMMUNITY DEVELOPMENT BLOCK GRANT

Cut the gang abatement program by 50 percent, forcing the City to scale back anti-gang workshops for elementary and high school students in the following areas: South Chicago; South Shore; Roseland; Englewood; Austin; Albany Park; Uptown; Edgewater; and, East Lakeview. Approximately 900–1,000 students would lose services.

Eliminate 5,000 one way medical trips for Elderly and Non-Elderly Disabled Persons.

Eliminate 8,000 homeowning units provided to disabled persons.

Eliminate 39,000 home delivered meals to disabled persons.

Decrease the number of new or rehabilitated units by 2,000.

Threaten the City's commitment with the Peoples Gas Light and Coke Company to fund the Chicago Energy Savers Fund.

Lose millions of dollars in private sector leverage funds for the Chicago Housing Partnership and other public/private programs which bank on the availability of CDBG dollars.

Prevent the construction of 70 Model Block projects and 155 Sidewalk Ramps.

Cancel the entire historic preservation program.

Closure of the Uptown Neighborhood Health Center, termination of the Adolescent Substance Abuse Program, and a reduction in Nutrition Counseling Services for maternal patients as well as adults needing therapeutic diets would have devastating effects on the City's health programs:

Loss of the Uptown Neighborhood Health Center, the Health department's largest health center would affect 50,000 annual patient visits by predominantly low-income residents who have few other health care alternatives.

The Adolescent Substance Abuse Treatment Program is the only inner-city residential treatment program for adolescents in Chicago. Its closure would leave 680 youth without necessary counseling services.

A reduction in the Nutrition Counseling program would eliminate services to 2,500 patients annually.

Approximately 500 residents would not receive job training and placement services.

Community Service Center programs will be cut by 15 percent, causing two centers to close and ending service to 20 percent of Chicago's neighborhoods.

Emergency Service programs will be cut by 25 percent resulting in 50,000 fewer clients needing information, referral, counseling or direct benefits such as energy assistance and emergency food.

Mobile emergency service teams will be dispatched on 3,730 fewer cases involving families or persons needing emergency shelter, food or transportation.

40,000 fewer emergency far[illegible] food packages will be available affecting 80,500 persons.

42 Title XX Day Care and After-School Care Centers will be closed as a result of losing CDBG matching funds, ending child development and care to 2,050 children, disrupting the employment or training of their low-income parents, and eliminating close to 300 local jobs.

Force a 50 percent reduction in planning and technical assistance to neighborhood based groups in the areas of economic development, job development and other direct neighborhood benefits.

Terminate the Neighborhood Planning Program affecting development activity in eight neighborhoods.

Eliminate the Neighborhood Energy Conservation Program which has successfully addressed the problem of building deterioration in low/moderate income areas.

25 percent reduction in processing, loan applications for businesses, planning capital improvements and developing job related policy initiative, with resulting loss of 2,000 new or retained jobs.

A decline in technical assistance to Chicago business firms by 600 firms a year.

AVAILABLE

Financial support to 26 neighborhood economic development organizations will be terminated, losing commercial promotion, marketing assistance, planning and technical assistance to these low-moderate income commercial areas.

Cancellation of several industrial area modernization projects with resulting deterioration of industrial areas and less opportunity for plant expansions, increasing unemployment as area job opportunities decline.

URBAN DEVELOPMENT ACTION GRANT

Loss of 1,000 to 1,500 jobs that would be available in UDAG-assisted industrial expansion and commercial development.

Private sector dollars totaling $50 to $60 million will be lost due to lack of UDAG leverage. Jobs that would otherwise be stimulated indirectly by UDAG project expenditures will be foregone. Such losses range up to $180 million or 4,500 jobs.

Elimination of the UDAG program would reduce the number of housing units provided next year by 150, in addition to a loss of private leverage funds, of which $25 million was made available last year for one housing project.

Based on last year's UDAG awards for Planning activities, the City will lose approximately $5.0 million in 1986 if the program is eliminated. This amounts to an additional loss of $50.0 million in private leverage funds, 1,400 jobs and $3.0 million in property tax revenue.

ECONOMIC DEVELOPMENT ADMINISTRATION

Decreased support for research into Chicago's economy, growth industries, and remedies for declining industries such as steel production.

Loss of land cost write-down development tool for industrial expansion incentives.

Curtailment of federal support for reconstruction of decayed industrial streets such as the 47th Kedzie industrial park.

General government

Fiscal year 1985 funding level	$67.2
Fiscal year 1986 proposed funding level	$44.5
Loss	$(22.7)
Percent	−33.8

GENERAL REVENUE SHARING

Shift costs for basic human services to the Corporate budget in property taxes, fees, fine and permit revenue sources, subsequently placing a greater burden on the individual taxpayer.

Severely impedes the City's ability to:

Provide vital health care services to Chicago residents including the monitoring and control of communicable diseases; delivery of community health and mental health services; and, performance of licensing and regulatory activities.

Manage a network of human service functions that protect children, develop youth, strengthen families and deliver aid to those in crisis.

Assist Chicago's older and disabled persons to live independently and ensure that those who must live in institutions receive proper care.

Protect the public against fraudulent and deceptive business practices and maintain integrity in the marketplace.

Provide once-a-week refuse collection for approximately 650,000 living units and City schools.

In addition to overall service reductions the following programs would be severely cut back or eliminated if Revenue Sharing is not extended next year.

Loss of 22,500 annual patient visits as a result of closing 7 health care facilities, including:

2 of 7 full service neighborhood centers closed.

3 of 17 community health clinics closed.

2 of 19 mental health centers closed; reduction of one by 50%.

Eliminate dental services; health education; and new initiative program to provide prenatal and delivery care to at risk patients.

Close Chicago Alcoholic Treatment Center which is the only public not for profit center in the City.

7,800 meals dropped from home delivery program for disabled or elderly people.

Human Services Centers and outposts will handle 2,880 fewer clients to agency programs.

1,500 fewer clients needing information, referral, counseling, or direct benefits such as energy assistance and emergency food will be served.

Mobile emergency service teams will be dispatched to 86 fewer cases involving families or persons needing emergency shelter, food or transportation.

Health and Human Services

Fiscal year 1985 funding level	$91.0
Fiscal year 1986 proposed funding level	$87.8
Loss	$3.2
Percent	−3.4

The Summer Lunch Program will not be able to meet nutritional need among the City's poor children; 47 sites will not be able to serve 87,000 meals to children whose access to nutritious meals at school ends with the finish of the school year.

8 Title XX Day Care and After-School Care Centers will be closed, ending child development and care for 397 children and eliminating 55 local jobs. This impact is in addition to the severe loss of day care spots and jobs from cuts in the CDBG program.

9 Head Start Centers will be closed, ending child development and care for 488 low-income children and eliminating 42 local jobs.

8,000 fewer people needing information, referral, counseling or direct benefits such as energy assistance and emergency food will receive services.

1 agency providing youth and family services will be closed, ending services to 500 persons annually.

1 Chicago intervention network agency providing services to reduce gang activity will be closed, ending services to 300 clients annually.

1 maternal and child health clinic providing services to reduce prenatal, infant and post neonatal mortality and the incidence of preventable diseases among children will close. The number of clients served will be reduced by 20% or 12,000 patient services.

Congregate meals and home delivered meals for the elderly will be reduced by 150,000.

Housing

Fiscal year 1985 funding level	$121.7
Fiscal year 1986 proposed funding level	$97.6
Loss	$(24.1)
Percent	−19.8

A reduction in HODAG funds will undermine the City's ability to stimulate millions of dollars in private investment for affordable housing, and result in the loss of 230 housing units.

Elimination of the Rental Rehab Program will result in the loss of approximately $20 million in private sector leverage funds and a reduction of 550 rehabilitated housing units.

Elimination of Section 312 will reduce the number of housing units rehabilitated next year by 90.

Loss of the Urban Conservation Energy Task Force program will eliminate the only energy research program oriented to urban needs, thereby stagnating progress made in the last two years in energy conservation services that are provided by community based organizations.

Cuts in the Illinois Home Energy Assistance Program means 5,000 low income households will not receive home energy assistance payments to help defray the high cost of home heating during the winter or to restore gas or electric service terminated by the utilities.

300 low income households will not receive weatherization assistance if this program is cut.

Job training/placement

Fiscal year 1985 funding level	$52.6
Fiscal year 1986 proposed funding level	$38.8
Loss	$(13.8)
Percent	−26.2

Cuts in the JTPA Title III Dislocated Workers Program will result in 175 fewer unsubsidized placements, 250 fewer participants in the job search workshop and the loss of 20 direct placements in OJT funded jobs.

Title I Older Individuals Program cuts will exclude approximately 100 older economically disadvantaged individuals who without the opportunity to return to the labor force might have to rely on public assistance.

Reductions in the Title II-B Job Training Partnership Act will force the City to cease funding approximately 150 community based organizations serving economically disadvantaged youth in Chicago. This translates into a 50% reduction or 12,000 fewer Chicago youth who will be served by the summer job program.

The JTPA Title II A Grant serves the economically disadvantaged in the city through a variety of employment and training services. A reduction in funds will result in a decrease of service levels from 17,000 to approximately 15,000 or less. In addition, approximately 50% of employment and training programs are community-based agencies located in neighborhoods with a high concentration of economically disadvantaged persons. Cutbacks in the number of agencies will further deteriorate employment and socio-economic conditions of already impoverished and blighted neighborhoods and communities.

Transportation

Fiscal year 1985 funding level	$319.2
Fiscal year 1986 proposed funding level	$264.7
Loss	$(54.5)
Percent	−17.1

Federal cuts in the Interstate Transfer Transit Program result in funding delays for multi-year capital programs such as the Southwest Transit Project connecting transit lines between the Loop and Midway Airport. Although the City will eventually receive the balance due, shortfalls in the annual appropriation cause schedule delays, possible cost overruns due to inflation factors, and prevent the City from providing the service level that Chicago residents expect.

Delays in highway resurfacing funds increase maintenance costs on substandard roads. In addition, approximately 10–15 miles will not be resurfaced next year.

Loss of CTA federal assistance for capital projects threaten delays and/or elimination of subway renovation projects and result in possible decreases in CTA ridership and service due to a deteriorating transit infrastructure.

IMPACT ON CHICAGO OF CURRENTLY PROPOSED CUTS IN FEDERAL PROGRAMS DETAIL

[In millions of dollars]

Program	Fiscal year 1985 city of Chicago funding level	Appropriation process percent increase/decrease	Fiscal year 1986 funding level	Gramm-Rudman proposed reduction (percent)	Fiscal year 1986 funding level	Reagan's[1] January proposal (percent)	Fiscal year 1986 funding level	Fiscal year 1986 cumulative loss	
								Dollars	Percent
Community and economic development	$111.0	−11.7	$98.1	−4.3	$93.9		$73.6	(37.4)	−33.7
General government (general revenue sharing)	67.2	8.4	[2] 46.5	−4.3	44.5		44.5	(22.7)	−33.8
Health and human services	91.0	.6	91.5	−4.3	87.8		87.8	(3.2)	−3.4
Housing	121.7	11.8	107.4	−4.3	102.7		97.6	(24.1)	−19.8
Job training/placement	52.6	23.0	40.5	−4.3	38.8		38.8	(13.8)	−26.2
Transportation (city and CTA)	319.2	−13.3	276.7	−4.3	264.7		264.7	(54.5)	−17.1
Grand total	762.7	−13.4	660.7	−4.3	632.4		607.0	(155.7)	−20.4
Community and Economic Development									
CDBG	99.3	−10.0	89.4	−4.3	85.6	−16	71.9	(27.4)	−27.6
UDAG	9.2	−25.0	6.9	−4.3	6.6	([3])	0.0	(9.2)	−100.0
EDA	2.5	−30.0	1.75	−4.3	1.7		1.7	(0.8)	−32.0
—Industrial streets									
—Section 302—planning									
—Land cost write down									
Total	111.0	−11.7	98.1	−4.3	93.9		73.6	(37.4)	−33.7
General Government									
General revenue sharing	67.2	−8.4	[2] 46.5	4.3	44.5		44.5	(22.7)	−33.8
Health and Human Services									
Social services block grant	13.7	−.9	13.6	−4.3	13.0		13.0	(0.7)	−5.1
Community services block grant	6.7	11.0	7.4	−4.3	7.1		7.1	(0.4)	−6.0
Headstart	27.1	1.1	27.4	−4.3	26.2		26.2	(0.9)	−3.3
Home energy assistance	17.6	0	17.6	−4.3	16.8		16.8	(0.8)	−4.5
Services for elderly (title III)	11.3	0	11.3	−4.3	10.8		10.8	(0.5)	−4.4
Health planning	0.7	−57.1	0.3	−4.3	0.3		0.3	(0.4)	−60.7
Health block grants	7.3	0	7.3	−4.3	7.0		7.0	(0.3)	−4.1

—Maternal and child health									
—Family planning									
Nutrition	6.6	0	6.6	0	6.6		6.6	0	0
—Child care food									
—WIC									
—Summer food									
Total	91.0	6	91.5	–4.3	87.8		87.8	(3.2)	–3.4
Housing									
City:									
Rental rehabilitation	10.6	–50.0	5.3	–4.3	5.1	(³)	0.0	(10.6)	–100.0
Weatherization	6.1	0	6.1	–4.3	5.8		5.8	(0.3)	–4.9
Rental housing development (HODAG)	13.4	–35.0	8.7	–4.3	8.3	(³)	8.3	(5.1)	–38.1
Single family rehabilitation loans (312)	2.2	(³)	0.0				0.0	(2.2)	–100.0
Subtotal	32.3	–37.8	20.1	–4.3	19.2		14.1	(18.2)	–56.3
Chicago Housing Authority (CHA)									
Operating subsidy	89.4	–2.4	87.3	–4.3	83.5		83.5	(5.9)	–6.6
Total	121.7	–11.8	107.4	–4.3	102.7		97.6	(24.1)	–19.8
Job Training/Placement									
JTPA (block grant)	27.4	–7.7	25.3	–4.3	24.2		24.2	(3.2)	–11.7
Summer youth employment	22.7	–44.1	12.7	–4.3	12.2		12.2	(10.5)	–46.3
Older Americans Act (title V)	.6	0	0.6	–4.3	0.6		0.6	0.0	0.0
Dislocated workers	1.9	0	1.9	–4.3	1.82		1.82	(.08)	–4.2
Total	52.6	–23.0	40.5	–4.3	38.8		38.8	(13.8)	–26.2
Grand total social services	443.5	–13.4	384.0	–4.3	367.7		342.3	(101.2)	–22.8
Transportation									
City:									
Interstate transfer transit	117.0	–11.1	104.0	–4.3	99.5		99.5	(17.5)	–15.0
Highway resurfacing (FAU and interstate transfer)	41.0	–34.1	27.0	–4.3	25.8		25.8	(15.2)	–37.1
Subtotal	158.0	–17.2	131.0	–4.3	125.3		125.3	(32.7)	–20.1
Chicago Transit Authority (CTA):									
Operating assistance	51.0	0	51.0	–4.3	48.8		48.8	(2.2)	–4.3

IMPACT ON CHICAGO OF CURRENTLY PROPOSED CUTS IN FEDERAL PROGRAMS DETAIL—Continued

[In millions of dollars]

Program	Fiscal year 1985 city of Chicago funding level	Appropriation process percent increase/decrease	Fiscal year 1986 funding level	Gramm-Rudman proposed reduction (percent)	Fiscal year 1986 funding level	Reagan's[1] January proposal (percent)	Fiscal year 1986 funding level	Fiscal year 1986 cumulative loss	
								Dollars	Percent
Capital projects	110.2	–14.1	94.7	–4.3	90.6	....	90.6	(19.6)	–17.8
Subtotal	161.2	–9.6	145.7	–4.3	139.4	....	139.4	(21.8)	–13.5
Grand total transportation	319.2	–13.3	276.7	–4.3	264.7	....	264.7	(54.5)	–17.1
Grand total grants	762.7	–13.4	660.7	–4.3	632.4	....	607.0	(155.7)	–20.4

[1] 16% reduction in CDBG through deferral order, elimination of UDAG and rental rehab programs.

[2] Based on three quarterly payments.

[3] Elimination.

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IMPACT ON CHICAGO OF FISCAL YEAR 1987 CUTS IN FEDERAL PROGRAMS

(Prepared by the Office of Budget and Management)

President Reagan's Fiscal Year 1987 Budget seeks to destroy federal assistance to state and local governments. Major urban programs would be eliminated or severely cutback under Reagan's budget. Chicago would lose the following assistance programs: General Revenue Sharing; Urban Development Action Grant; Community Services Block Grant; Rental Rehabilitation; Rental Housing Development (HODAG); Weatherization Assistance; and CTA Operating Assistance. Termination of these programs combined with substantial cuts in other federal grants results in a loss from fiscal year 1985 city service levels of over $400 million. This round of cuts follows the estimated $155 million loss in fiscal year 1986 major grant programs. Cumulative losses in program funding levels over the two year period total more than one-half billion dollars.

If Congress enacts these cuts, services in virtually every aspect of life would be adversely affected including: housing; transportation; community and economic development, job training; health; and, human services. Without a reversal of the proposed cuts, the City will be forced to eliminate its most basic services. This option is a grim alternative as the need for these services increased since Reagan took office. Under Reagan's administration the poor have gotten poorer while defense gets richer. The federal budget deficit cannot be balanced on the backs of Chicago's homeless and poor, however, this is exactly what Reagan's budget proposes to accomplish. Impacts from the hardest hit areas under Reagan's budget follow. These illustrate the severe effect the proposed cuts will have on the quality of life for Chicago residents.

COMMUNITY AND ECONOMIC DEVELOPMENT

The Reagan Administration proposes to eliminate the Urban Development Action Grant as well as the Economic Development Administration. Funding for the Community Development Block Grant was slashed by approximately 12 percent in addition to a change in the statutory distribution between urban and rural areas from a 70/30 to a 65/35 split. The deferral of $500 million in fiscal year 1986 budget authority to fiscal year 1987 spending merely kept 1987 program levels constant with 1986 reduced levels of 30 percent, rather than bring funding back to the appropriated budget levels.

Loss of economic development programs will stagnate private investment in the City. Without the ability to match public dollars for private dollars financing mechanisms which spur economic development projects will cease to exist, losing millions of dollars projects in private investment, tax revenue and new jobs.

URBAN DEVELOPMENT ACTION GRANT

Loss of 1,000 to 1,500 jobs that would be available in UDAG—assisted industrial expansion and commercial development.

Private sector dollars totaling $50 to $60 million will be lost due to lack of UDAG leverage. Jobs that would otherwise be stimulated indirectly by UDAG project expenditures will be foregone. Such losses range up to $180 million or 4,500 jobs.

Elimination of the UDAG program would reduce the number of housing units provided next year by 150, in addition to a loss of private leverage funds, of which $25 million was made available last year for one housing project.

Based on last year's UDAG awards for planning activities, the City will lose approximately $5.0 million in 1986 if the program is eliminated. This amounts to an additional loss of $50.0 million in private leverage funds, 1,400 jobs and $3.0 million in property tax revenue.

ECONOMIC DEVELOPMENT ADMINISTRATION

Loss of support for research into Chicago's economy, growth industries, and remedies for declining industries such as steel production.

Loss of land cost write-down development tool for industrial expansion incentives.

Curtailment of federal support for reconstruction of decayed industrial streets such as the 47th Kedzie industrial park.

COMMUNITY DEVELOPMENT BLOCK GRANT

Although the Reagan Administration argues that these types of economic development incentives are replaceable under CDBG program guidelines, cuts and deferrals in this program area will have a devastating effect on fiscal year 1986 and fiscal year 1987 programs. The $56 million loss in City currently program services over the two year period will affect numerous city services including:

Cut the gang abatement program by 50 percent leaving 1,800-2,000 youth without services.

Eliminate 10,000 one way medical trips for elderly and non-elderly disabled persons.

Eliminate 80,000 home delivered meals to disabled persons.

Lose millions of dollars in private sector leverage funds for the Chicago Housing Partnership and other public/private programs which bank on the availability of CDBG dollars.

Prevent the construction of 140 Model Block Projects and 310 sidewalk ramps.

Close the Uptown Neighborhood Health Center, terminate the Adolescent Substance Abuse Program and reduce Nutrition Counseling Services; terminating approximately 55,000 annual patient visits.

Close two community service centers, reduce other programs by 15% and end service to 20% of Chicago's neighborhoods.

Cut emergency service programs by 25% resulting in 100,000 fewer clients needing information, referral, counseling or direct benefits such as energy assistance or emergency food.

42 Title XX Day Care and After-School Care Centers will close as a result of losing CDBG matching funds, ending child care to 2,050 children.

GENERAL REVENUE SHARING

General Revenue Sharing funds help to defray costs of the City's programs and services in the areas of housing, health, human services, aging and disability and sanitation. The City lost $20.7 million in Revenue Sharing in fiscal year 1986 which placed a greater burden on the City to maintain services at current levels. Reagan's budget proposes to rescind one quarter of fiscal year 1986 General Revenue Sharing funds and terminate the program in fiscal year 1987. Elimination of General Revenue Sharing would result in a dozen City Departments losing one-third of their funds. To absorb this cut the City would be forced to significantly reduce programs and personnel in the following City service areas:

	Service reductions (percent)	Necessary layoffs
Consumer services	37	70
Health	32	406
Human services	32	52
Sanitation	30	776
Aging and disability	29	16

HOUSING

Zero funding for subsidized housing is proposed for next fiscal year. Reagan's budget would eliminate the Rental Rehabilitation program, Rental Housing Development Grant (HODAG) and the Weatherization program for low-income housing units. Since Reagan took office in 1981, housing programs have suffered a 68 percent cut. Fiscal year 1987 proposals would result in a 91 percent reduction in housing programs targeted to low income families. These levels are far below those necessary to address the housing needs of our urban poor.

An elimination of the Rental Rehabilitation Program will result in the loss of approximately $20 million in private sector leverage funds and a loss of 550 rehabilitated housing units.

Termination of HODAG funds will curtail the City's ability to stimulate millions of dollars in private investment for affordable housing, and result in the loss of 657 housing units.

6,000 low income households will not receive weatherization assistance if this program is eliminated.

HEALTH AND HUMAN SERVICES

9 Head Start Centers will be closed, ending child development and care for 488 low-income children and eliminating 42 local jobs.

8 Title XX Day Care and After-School Care Centers will be closed, ending child development and care for 397 children and eliminating 55 local jobs. This impact is in addition to the severe loss of day care spots and jobs from cuts in the CDBG program.

1 maternal and child health clinic providing services to reduce prenatal, infant and post neonatal mortality and the incidence of preventable diseases among children will close. The number of clients served will be reduced by 20 percent or 12,000 patient services.

Community Service Center programs will be cut back by more than two-fifths (41.5 percent).

Four Community Service Centers and two outposts will be closed, limiting accessibility to DHS services by clients, reducing contact with community groups, and ending service in nearly half of the neighborhoods in Chicago.

DHS staff will help 157,700 fewer clients needing information, referral, counseling or direct benefits such as energy assistance and emergency food.

19 delegate agencies providing youth and family services will be closed, ending services to 9,500 persons annually and eliminating 40 local jobs.

19 Chicago Intervention Network delegate agencies providing services to help reduce gang activity will be closed, ending service to 5,700 clients annually and eliminating 19 local jobs.

TRANSPORTATION

Formulation of a new transportation block grant will lump several old transportation programs together thereby eliminating at least one funding source and severely slashing several others. Federal operating assistance to mass transit will be eliminated under Reagan's budget. Capital assistance to the CTA will decrease by 62 percent. Chicago's Interstate Transfer Transit capital improvement program will be cut 40 percent and the federal funded highway program will lose a third of its funding. These losses total over $200 million from 1985 budget levels and will have devastating effects on transportation services in the City.

Severe service cuts and/or substantial fare increases for CTA.

A $40 million shortfall in the Southwest Transit Project, (a nine-mile rapid transit extension to Midway Airport), threatening schedule delays and cost overruns.

Termination of approximately 20 highway capital improvement projects.

Cuts in the FAA trust fund that distributes money to airports for improvements will cut Chicago's share by approximately 20 percent. This reduction is unjustified as airline users pay an 8 percent tax on ticket prices to provide money to the trust fund. Without the necessary dollars airfield improvements at Midway will be gravely affected, causing airlines to raise costs to pay for required repairs.

JOB TRAINING

Reagan's budget proposes to cut $208 million in summer youth employment funds.

As a result of this cut 4,750 youth would not receive job training services in the Summer of 1987.

Programs that primarily serve low income people have already assumed a disproportionate share of the burden for reducing the federal deficit. Gramm-Rudman sought to balance the budget through across the board cuts. Now that Gramm-Rudman has passed, the cuts are no longer fair. Reagan's fiscal year 1987 budget attempts to balance the federal budget through draconian cuts in urban domestic programs while increasing the defense budget and refusing a tax increase. This strategy cannot be tolerated.

REAGAN'S FISCAL YEAR 1987 BUDGET PROPOSAL

[Dollars in millions]

Federal grant programs	Fiscal year 1985 grant level	Fiscal year 1986[1] grant level	Fiscal year 1986 loss	Reagan's budget proposal fiscal year 1987	Fiscal year 1987 proposed funding	Fiscal year 1987 reduction from 1985 base	Cumulative loss (1986-1987) from 1985 base
General Revenue Sharing	$67.2	$44.5	($22.7)	Elimination	0	($67.2)	($89.9)
Community Development Block Grant	99.3	71.9	(27.4)	Defer $500M of 1986 budget authority to 1987 Change statutory distribution.	$70.4	(28.9)	(56.3)
Economic Development Administration	2.5	1.7	(.8)	Elimination		(2.5)	(3.3)
Urban Development Action Grant	9.2	2.2	(7.0)	Elimination		(9.2)	(16.2)
Social Services Block Grant—Title XX	13.7	13.0	(.7)	4.5 percent increase	13.6	(.1)	(.8)
Community Services Block Grant	6.7	6.4	(.3)	Elimination		(6.7)	(7.0)
Head Start	27.1	26.2	(.9)	3.4 percent increase	27.1		(.9)
Women, Infants, Children Nutrition	6.6	6.6		3.4 percent increase	6.8	.2	.2
Rental Rehabilitation	10.6		(10.6)	Elimination		(10.6)	(21.2)
Rental Housing Development (HODAG)	13.4	8.3	(5.1)	Elimination		(13.4)	(18.5)
Weatherization	6.1	5.8	(.3)	Elimination		(6.1)	(6.4)
Jobs Training Partnership Act—Title IIA	27.4	27.1	(.3)	0.5 percent decrease	26.5	(.9)	(1.2)
Summer Youth Employment—Title IIB	22.7	12.2	(10.5)	33 percent decrease	8.2	(14.5)	(25.0)
Interstate Transfer Transit	117.6	103.5	(14.1)	40 percent decrease	62.1	(55.5)	(69.6)
Highway Resurfacing	41.0	25.8	(15.2)	33 percent decrease	17.3	(23.7)	(38.9)
City total	471.1	355.2	(115.9)		232.0	(239.1)	(355.0)
CTA operating	50.5	50.1	(.4)	Elimination		(50.5)	(50.9)
CTA capital	121.6	100.3	(21.3)	62 percent decrease	38.1	(83.5)	(104.8)
CTA total	172.1	150.4	(21.7)		38.1	(134.0)	(155.7)
Other programs	119.5	101.4	(18.1)		[2]83.4	(36.1)	(54.2)
Grand total	762.7	607.0	(155.7)		353.5	(409.2)	(564.9)

[1] Includes appropriation cuts/Gramm-Rudman reduction and deferral/rescind orders.

[2] Preliminary estimates.

The **Chairman**. Thank you, Mr. Mayor. Your testimony is very clear. I want to really ask one question and then I am going to allow other members who are very familiar with the situation here to question you.

Mr. Mayor, as I listened to you describe a loss of upward of over $500 million, one-half billion dollars from the 1985 base to your city, through a variety of direct funding programs, and that doesn't even include the indirect funding things which you can't control but just the direct economic things. Are you saying that you are opposed to any cuts whatsoever in light of the deficit problem, or are you simply saying these priorities are not the correct ones?

Mr. **Washington**. Clearly across the board, America understand the necessity for a truncated display of funds. We can no longer lavish funds on cities, the defense budget or anything else. We are prepared to take what we call a reasonable fair share of the deficit makeup. But what has happened in this budget is an imposition on the cities of a draconian nature. They are cutting the very heart out of our city.

Just what that adjustment would be and how you would precisely prioritize the whole bits and whether or not you would reach into the covers of this country and increase the taxes are issues for the great Congress to deal with, and I wouldn't presume upon them in terms of prioritizing, but reprioritize they must. We simply cannot afford to have those cities categorized or reduced to mere wastelands, and that is what is going to happen, as these figures point out.

As bad as these figures are, Mr. Chairman, we must say that there are some cities, most cities in the Midwest are worse off than we are. And so this figure, the figures we have given can be dramatized far beyond that.

But to conclude an answer, yes, we are prepared to take a fair share of rollback in the dollars coming into our cities. We face up to the same responsibility you do in the Congress but these are outlandish and unfair. If I may say so without ushering in a whole debate, the defense budget is the greatest size—you can't defend the defense budget. It's just too big.

You are looking at a former soldier and a veteran, a proud former first sergeant in the U.S. Armed Forces who takes second to nobody in his patriotism, but I am convinced, based on talking to my own Congress people and others, that we can afford a greater cut there. So I submit to you categorically that this cut is too great and there are other avenues that should be cut more, other sources which might well bring up additional Federal dollars in terms of revenue.

The **Chairman**. Thank you, Mr. Mayor. I wanted to make sure I understand. So you are saying that Chicago and other cities are prepared to take reductions, but it's the levels of reductions in this particular budget that the President proposed which are totally unacceptable.

I would like to yield to the gentleman from Illinois, a member of the committee, Congressman Russo.

Mr. **Russo**. Mr. Mayor, in my analysis of the budget, I have a suggestion for the mayors of this great country. You ought to secede from the Union, declare war, and then surrender. Then you will get several things—especially if you call yourself a freedom fighter. You will get a lot of aid from the military assistance budget as well as foreign aid.

As you can well imagine, with the increases in this budget of $34 billion in defense in 1 year, the President will find a way to send money to you, and with the increase in foreign aid of about $3 billion there will be some programs he can adjust to send money to you. So I would suggest that you take that tactic if it is not possible to adjust to his budget. It would seem you have a better chance going this route rather than being a city that contributes so much to America. The President for some reason loses sight of the meaning of cities.

Mr. Mayor, the President has always indicated he thought greater responsibilities ought to be handled on the State and local level, that the transfer of a lot of programs and necessities ought to be dealt with by States and local governments. This seems to be the theme of what he wants to do. What would you do, Mr. Mayor, in order to make up for this $268 million shortfall in order to deliver the services that the President says you ought to deliver rather than the Federal Government; how would you pay for it?

Mr. WASHINGTON. What are our alternatives? Our tax base is extremely limited. We are now in the throes of trying to find a solid revenue base just to take care of current needs. For example, we have a work force which in the main has had no increases in salary over the past few years. We have gone through a series of collective bargaining arrangements and those salaries, obviously, clearly, have to be paid.

Our police and fire are looking for an increase of some sort within the next few weeks or months, and the sources we have been able to plumb, as controversial as they are, can do no more than just stave off future problems. So we have no place to go locally. We have gone just about to the zenith in terms of our real estate taxes. We are struggling now with a commercial lease tax and have a tremendous debate going on.

There have been discussions of an airline fuel tax and the attendant problem, of course, is the danger of losing our hub. There is a motor fuel tax under discussion that has some doubtful constitutionality but it would be no more than a Band-Aid, if that much so. We are hard pressed to look for additional revenue within the confines of our local options. We looked into the State. They are not lavish either.

This year the Governor came up with a bill and we glomed onto it, after a longstanding debate, with some degree of genius and brilliance I might say, a municipal agenda which will bring us some small few dollars. There is no place else to go. If we look to the private sector, the kind of dollars we need to stave off ultimate ruin, they are simply not there. Whether you are talking about charitable dollars, which I hope the President is not suggesting, or whether you are talking about investment dollars in the neighborhoods where the jobs are, where the people live, those dollars just aren't there. So there is only one source that we can look to at this point for additional equity dollars to continue to build our vast cities and that is to the Federal Government.

Mr. RUSSO. Mr. Mayor, I notice you avoid mention of property tax increases. I assume you are at your limit on property tax increases also.

Mr. WASHINGTON. Yes; I mentioned real estate taxes.

Mr. RUSSO. Mr. Mayor, over the last 5 years a certain segment of our society has been paying for the Reagan budget and now it seems to me that a whole new group within our society is going to have to pay for this next round of budgets cuts—people who have been saying, "balance the budget" but who have never felt the pain of the budget being balanced on their backs. I think you are going to find a whole new group being affected by it.

It is ironic that at this time, Mr. Mayor, you are going through this problem of deficits of $100 million and of having to make up the shortfall in trimming back your budget and staff and trimming back staffs of different departments within your jurisdiction. It is ironic because the President is, in this time of great austerity, telling the American people he doesn't have enough money for child care, for child nutrition, for transportation and for education, for agriculture, for all the various important things that we need in this country, but he nevertheless has the audacity to increase his own personal budget at the White House over $500,000 at the same time he is asking all of us to tighten our belt.

It seems to me the priorities of this administration are not screwed on properly, and I hope the mayors in this country do something about bringing that to the attention of all the people they represent.

I thank the Mayor.

Mr. WASHINGTON. Thank you very much.

The CHAIRMAN. The Chair recognizes the gentleman from Montana, a member of the committee, Congressman Williams.

Mr. WILLIAMS. Thank you, Mr. Chairman. Mayor Washington, we appreciate your testimony on behalf of the people of Chicago. I must say I found it surprisingly stark and bleak. It is important that we hear that though. It is the truth. I believe it is. The reason we take the time to come here from Washington and circulate this budget is because when any President, particularly this President, submits a budget, it's a very important document that ought to be taken seriously.

Many people said trickle-down economics would never go into effect, the tax reform bill would never pass, supply-side economics wouldn't be a reality in America, the President was a lameduck. We found out that this President has a way of making things happen and he can't be taken for granted. His programs and his prospects for America have a way of taking shape and taking force.

Just a few days ago the President delivered to a joint session of our House and the Senate his State of the Union Message, and as he always does, he painted a bright uplifted America for all to see. Then, the next day, he sent the roadmap explaining how to reach that America in this document. What we are out trying to determine is whether or not the American people agree that you can reach the America of Ronald Reagan with this document since this is the blueprint, the architectural design.

Nobody disagrees with the picture that Ronald Reagan paints for America. I am sure you don't, Harold, and I don't. The question is, can you get there with this document. You are telling us that, at least here in Chicago, the America of Chicago's future would be far different than that painted by the President.

Harold, how many young people of employable age are out of work in this city? What is the percentage of unemployed youth?

Mr. **Washington**. Well, if you go by the zenith period, which is summer, it would be better than 200,000. The summer youth programs can service about 10 percent of those, a cutback. So at the zenith period in the midsummer you have 175,0000, 180,000 young boys and girls ready, willing and able to work who can't find employment. Now, that is not really the stark picture either, because there are those who are not in school, youth who are chronically unemployed and who are chronically unemployed not just because there is a shortage in jobs but because they can't bring the requisite training to the employment bargaining table.

So when you cut back JTPA funds, for example, and training funds, you are cutting the heart not only out of the present but the future. That figure is 200,000. Obviously you put your finger on it. Really it's the plight of the cities in the future. You simply cannot afford to have young people of employable age with no visible means of employment. You are just begging for chaos; you are begging for increased gang activity; you are begging for an increase in drug traffic, in the liquor traffic; you are begging for all kinds of attendant and related crimes of a small and serious nature which go along with that kind of unemployment. The social fallout is just unimaginable when you look at that stark figure of 200,000. That is conservative.

Mr. **Williams**. Thank you, Mr. Mayor. Thank you, Mr. Chairman.

The **Chairman**. The Chair now recognizes the gentlewoman from Illinois and from Chicago, a distinguished Member of the House of Representatives, the Energy and Commerce Committee, Congresswoman Cardiss Collins.

Mrs. **Collins**. Thank you very much, Mr. Chairman. Mr. Chairman, first of all let me welcome you to the Seventh Congressional District, which happens to be where we are right now, and let me say too that while you had an opportunity to have a tour of Hull House, et cetera, I am sorry you haven't had an opportunity to go out further west in the Seventh Congressional District of Chicago, where many of our people are suffering from the kinds of things the mayor has talked about today.

The President himself has not been on the west side of Chicago and I wish he would, because if he would he would see the kinds of ills that we have all over our Nation, not just in Lawndale, not just in Garfield Park, not just in Pilsen, not just beyond the South Loop, but other places in the Seventh Congressional District.

We know this budget isn't going to work. We know the last budget didn't work. The polls have shown it; the stock market has reflected it; the bankruptcies of farmers illustrated it; the homelessness of millions of citizens in our country proves it; the joblessness of millions of our workers underscores it; and the ill health of our elderly is going to be the roadmap Mr. Williams has talked about here today.

The question I have for you, Mr. Mayor, is I know that we had some means that were being prepared by the city of Chicago to come into those areas like North Lawndale, like Haymarket, et cetera, and yet the President has proposed in this budget to cut the moneys off that you were going to have to do those things in those areas. How is that going to be effective for those of us who happen to represent those kinds of areas in our country?

Mr. WASHINGTON. You multiply the figure you just gave by 5, 6, 7, 10, whatever quotient you want, and you will see Lawndale in the future if those cuts remain. You can go right on down the line. We have the Southwest Transit System which has been in the offering for years. It will revitalize and rejuvenate the whole southwest sector of the city and beyond into the suburbs, but with the proposed cuts we can't build that. It will have died aborning, raisins dried up in the Sun.

So wherever you look, dollars are translating into revitalization and the lack of dollars are just the opposite. If the dollars were maintained on the present level, we have the ingenuity in these cities to make do. We could even take a minute cut. But with the proposed cuts we cannot sustain this city. The private-public relationship which has been developing in this city for the first time in its history, would go mourning because we could bring nothing to the table to induce the private sector to come here.

Mrs. COLLINS. So in effect, Mr. Mayor, for those who live in areas such as those I represent, who happen to be on the far west side, when you have these kinds of proposed cuts in the mass transit system you are really saying to these people: "If you even found a job out in the suburbs, you can't get there." For those who have small businesses in mind, when you are talking about eliminating the Small Business Administration you are saying even though you want to help yourself you can't do that. For those of us who want to educate our children yet we find that the resources are going to be gone and BEOG grants are going to be nonexisetent, we are saying you will have to remain ignorant and those are the kinds of things you are talking about, isn't it?

Mr. WASHINGTON. Absolutely; as of today, rather a few days ago, the CTA fares went up. You can trace that directly to cutback in operation and capital subsidies for our mass transit system. There is a direct correlation. I have here, Mr. Chairman, if you will permit me to place into the record, "The Federal Budget and the Cities" put out February 1986 by the U.S. Conference of Mayors, in which the figures I have given you today are replicated throughout the entire country and other major cities and just one figure here would be of interest.

On page IX, Reduction in Major Urban Programs, this study indicates that as of 1987 there will be a total of 71 percent of all Federal grants, et cetera, going into cutback, 71 percent as of that point. We are at about the 50-percent figure now.

That covers some of the areas you mentioned.

Mrs. COLLINS. Thank you very much, Mr. Mayor. In view of that, Mr. Chairman, I think all of us would have to agree that the President's budget clearly isn't going to lead toward a balance of any national budget, it's not going to balance the economy, it's not going to balance the disparity between the rich and the poor nor balance the inequities between the trade deficits that we happen to have right now. It's not going to balance our personal budget, and God knows, it's not going to balance our checkbooks. Thank you.

The CHAIRMAN. The Chair recognizes the distinguished gentleman from the State of Illinois. He is also a representative of Chicago, IL, who succeeded the mayor in Congress: and our distinguished colleague, Congressman Charles Hayes.

Mr. HAYES. Thank you, Mr. Chairman. I have no questions of the mayor. However, I do have a prepared statement expressing some of the concerns of my constituents in the First Congressional District, 92 percent of whom are black. I will not take the time to go into it but I would like to present the statement in its entirety for the purpose of the record. I want it clearly understood that this statement says quite clearly that the President's budget, if enacted, would have a devastating effect on many of the people who live in the First Congressional District of all ages and both sexes—children, adults, and seniors; 18 percent of whom are unemployed and 60 percent of our youth without a job.

My statement addresses itself to what I consider to be the No. 1 unresolved problem in spite of the very rosy picture presented by the President in his message to the Congress and to the American people that everything is hunky-dory in our whole economic system.

Gramm-Rudman does not address itself to the problem of unemployment. The best and most logical way to reduce the Federal deficit is to advance programs that will mean jobs for the unemployed, to advance programs that would put people to work. They would be glad to pay income taxes, which would increase the income of the Government. I think we have got to start looking in this direction Mr. Chairman, and I want to thank you and my colleagues Russo and Williams for coming to Chicago and kicking off what I understood to be a series of hearings. I do hope that emphasis is placed on reducing our deficit by putting people to work, not doing makeshift jobs but jobs that will help save our inner cities, and yes, the countryside as well, because there are many farmers who are complaining about this budget. You are looking at a man who set out trees on the banks of the Mississippi River as an adult right after I finished high school, and Lord knows, we need some of these kinds of programs to prevent soil erosion.

The CHAIRMAN. Thank you, Congressman Hayes. Your full statement will be submitted for the record.

[The prepared statement of Mr. Hayes follows:]

PREPARED STATEMENT OF HON. CHARLES A. HAYES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

It is a pleasure and a privilege to appear as a guest of the House Budget Committee here in my hometown of Chicago. Chicagoans have an acute interest in the budget proposed last week by President Reagan. Many, I fear are just as disappointed as I am in the President's proposals. For the fifth consecutive year, President Reagan has proposed a budget that will mean greater hardship for the city of Chicago. Mass transit, Educational Block Grants, Operation Head Start, Housing programs and many other programs that improve the daily quality of life for our city's citizens are being reduced and eliminated. At the same time the Administration wants to manufacture nerve gas weapons to put underground and to build MX "bargaining chips" in order to negotiate with the Soviet Union. At the very time when our communities are crying out for funds for job training, education, and economic development, the Reagan Administration is reducing them, and is instead asking for $100 million in order to fund terrorists in Central America. This Administration does not have its priorities in order. It appears that the only way for those of us in our nation's cities to get assistance is to take up arms and to call ourselves "freedom fighters."

The Reagan Administration seems to be principally concerned with reducing the deficit; a deficit that many of us in Congress believe was intentionally created in order to do away with domestic programs that the President did not want anyway. It has often been said—but still bears repeating—that the deficit has increased more under the four and one-half years of the Reagan Administration than under every other President combined, from George Washington to Jimmy Carter. In five and one-half years, President Reagan has been able to do what it took every other President in our history over 190 years to do; create another trillion dollars of debt. After blaming the Congress, blaming the previous Administration, and blaming poor people, in a last gasp attempt to stop himself, he embraced a bad idea called Gramm-Rudman. Gramm-Rudman is a mean-spirited, irresponsible, unfair, and probably unconstitutional law. Its passage was, at best, unfortunate. We all agree that the deficit must be reduced, but not the way that the President is trying to do it. I believe that we *must* solve the chronic unemployment problem in our nation. If more people are working, more people pay taxes to the federal government, which will increase the government's income. This also reduces the amount that the government pays for assistance programs. Unemployment in our nation is approximately 7 percent, and 8 percent in Illinois. The unemployment rate for the black community is virtually twice that of the general population, and among our black youth it is an astonishing 60%. Clearly these figures are unacceptable, and prompted me to introduce H.R. 1398, the Income and Jobs Action Act. H.R. 1398 recognizes the right to earn a decent living and the right to an adequate income for adults unable to earn an income through paid employment. If our nation can employ the unemployed, we will eliminate the deficit. Jobs are the answer.

Some believe that we must reduce the military budget. I agree. We must reduce the amount that we spend on defense. Others have said that we must increase revenue for the federal government. I share that concern. We must restore fairness and equity to the federal tax system. But I insist that jobs should be the first priority. It is the most positive and productive step we can make.

My esteemed colleagues, I am looking forward to the testimony of our witnesses today. The people of Chicago are willing to work, and they are willing to share the burden of reducing the deficit. What they ask is that the burden of reducing the deficit be shared equally. As a Member of Congress whose entire district sits in the heart of the City of Chicago, I need the input of its citizens in order to make a strong case for the entire Congress to make the budget more fair and equitable for all.

The Chairman. At this time the Chair recognizes the distinguished gentleman from Wisconsin, Congressman Moody.

Mr. Moody. Thank you, Mr. Chairman.

Mr. Mayor, thank you for having us in your city. Let me congratulate you on your eloquent statement. I represent a portion of the city of Milwaukee, just 80 miles north of here, and we face many of the same problems that you do. Our economy and the features of our economic difficulties are in many ways exactly the same as yours. So when you speak for Chicago you also speak for us.

Mr. Mayor, you spoke critically of the tax reform bill, particularly with respect to tax-exempt bonds, the so-called tax expenditure part of our fiscal picture.

Mr. Mayor, tax expenditures now total approximately $400 billion per year, twice the size of the total Federal deficit, and in the neighborhood of total collections of the personal income tax in America.

Now, corporate tax expenditures, of course, are the largest part rather than urban tax bond expenditures, and I feel strongly that we have to get a handle on that if we are in fact going to get our own fiscal house in order. General Electric, for example, earned $10 billion over the last few years, on which they paid not 1 penny of income tax, due to our tax expenditure program. The tax reform bill would go a long way toward closing down those loopholes and restoring our Federal tax base, which has been so badly eroded. That will have long-term implications for the debt and reduce pressure for cuts.

I would hope as the mayors organize against the Reagan budget that they would not organize against the tax bill, because that will be a very important first step in closing the hemorrhaging that has been going on, which in turn is exacerbating the budget deficit. As I say, that hemorrhaging now equals twice the size of the total deficit.

I commend you on your statement. I think it was a very strong and effective statement but I hope you would not work against the tax reform bill, for the reasons I mentioned.

Mr. WASHINGTON. Certainly there are plenty portions of the tax reform bill which are laudable, but there are certain areas which I think are equally destructive of city development which have to be looked at very hard; financing, for example, revenue bonds, and those kinds of things which are really the heart of redevelopment of our vast cities, which have to be looked at very carefully before the standards and methods of using them are changed. For example, we are building an airfield at our airport primarily through one of those devices. So yes, tax reform, but with a caution.

The CHAIRMAN. The Chair recognizes that we have been joined by the distinguished gentleman from Illinois, who also represents a portion of this great city, Congressman Gus Savage. Congressman Savage perhaps at this time would like to make a brief statement before we go to our next witness, Marian Wright Edelman.

Mr. SAVAGE. I would only take a moment to add, Mr. Chairman, that while there is some elation that at least a portion of Gramm-Rudman has been declared unconstitutional, at least for the time being, to just warn that the Reagan budget proposals are even worse than Gramm-Rudman. Whereas in Gramm-Rudman the difference between the deficit and the budget adopted is cut across the board, 50 percent of those cuts are allocated to defense, whereas the Reagan budget proposals propose increasing defense by $34 billion, which has the effect of cutting domestic programs even more than would have Gramm-Rudman.

I want to just add that the problem, however, goes beyond the President and the Congress. It goes beyond that. I think what has happened is that the overwhelming vote for the President's reelection in 1984 has intimidated Congress, which is evidence that the problem goes all the way to the American people, who are so confused that they would vote against their own interests.

Finally, I want to add, because with all due respect to my good friend Congressman Moody, I, too, have great reservations regarding the tax reform bill because while the publicity has been around taking 6½ million people off the roles, they are talking about marginal taxpayers to start with, who only pay $20, $30, $40 a year in taxes. That bill is a bill that helps the wealthy more than it does the poor because it reduces the present top rate of taxation on income from 50 percent to 38 percent, and that is a bigger cut for the wealthy than for the poor. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Congressman Savage. We are certainly delighted to be here in Chicago, which you have the honor of representing in the U.S. Congress. Mr. Mayor, we want to thank you for taking your time in welcoming us to your city, and testifying, and giving us an idea of what the priorities ought to be, while we spontaneously attempt to reduce the deficit. I would like to thank you and your aides for being here. However, I would like to ask you one final question. As someone who has the role of an executive leader who must put together budgets yourself and stand behind those budgets.

According to our staff last Wednesday, we announced that the President did not meet the target of $144 billion as required by law in Gramm-Rudman. In other words, his budget, which he claimed would reach a deficit reduction down to $143.6 billion in 1987, was flawed because it underestimated defense outlays by $15 billion.

In that same evening, Chairman Domenici of the Senate Budget Committee agreed with my estimates. On Friday, the Congressional Budget Office, the independent budgeting arm of Congress, came out and said that the amount was $14.7 billion, thus making the President's budget not under the target of $144 billion but in the area of over $155 billion.

If your budget was submitted to a legislative body, and an independent analysis such as CBO clearly showed there was an underestimation, would you as an executive resubmit that budget? Do you feel that the President ought to resubmit his budget?

Mr. WASHINGTON. Yes.

The CHAIRMAN. Thank you very much.

Mr. WASHINGTON. One additional comment, Mr. Chairman. Thank you for indulging us this morning. I have a submission I would like to quickly offer. It is that the city of Chicago tax-exempt bond shortfall revenue impact on Treasury.

The CHAIRMAN. Mr. Mayor, we want to thank you for testifying. We also want to thank you for hosting the committee in a fellowship meal, and we are sorry that you weren't able to make it because of not feeling up to par. But certainly you are back on track and up to par today. Thank you very much.

Mr. WASHINGTON. You ate my portion, I take it?

The CHAIRMAN. I will never tell.

We welcome Mrs. Edelman and certainly her testimony comes at a very important time. Particularly in light of the emphasis of the President in his State of the Union Address about family values and the need to strengthen those values.

Certainly this Congressman joins the President in being concerned about families and family values. As a Baptist minister, I think it is extremely important that we do all that we can to strengthen the basic unit of this society. The basic unit of this society is not the Federal Government, not the State government, not the local government, but it is the family. Thus, in light of the emphasis of the State of the Union Address on family values, the testimony of Mrs. Edelman is extremely important as we now find out whether the public policies exist as expressed in the budget also reflect strong family values.

So with that interest in mind, we welcome Mrs. Edelman to the House Budget Committee and the city of Chicago.

Mrs. Edelman, as you know, you can submit your full testimony for the record. You should feel free to highlight and summarize so we can get into questions rather quickly. Welcome again.

STATEMENT OF MARIAN WRIGHT EDELMAN, PRESIDENT, CHILDREN'S DEFENSE FUND, ACCOMPANIED BY MARY BOURDETTE, LEGISLATIVE DIRECTOR, CHILDREN'S DEFENSE FUND

Mrs. EDELMAN. Thank you, Mr. Chairman.

I am delighted to be here with you and the members of this committee.

Like you, I share a strong belief in family values as a daughter and a granddaughter of Baptist ministers and I think there is no more important goal for this Nation than a strong investment strategy in the Nation's families. I have submitted a statement for the record and will have a slightly different oral presentation.

Mary Bourdette, our legislative director at the Children's Defense Fund is with me to help answer any questions you may have.

President Reagan's fiscal year 1987 budget continues to turn our national plowshares into swords and to bring good news to the rich at the expense of the poor. It offers not a shred of defense for the millions of American children and families whose No. 1 daily enemy is poverty.

Here in Chicago, as you may have heard from our earlier report on the status of children and mothers in America in 1986, a black infant is more likely to die in the first year of life than an infant born in Cuba or Costa Rica.

I think it is not acceptable that hunger stalks the land now and affects hundreds of thousands of poor children like 9-year-old Lee who lives in the Bootheel section of Missouri. He has the stature of a 6-year-old, because he doesn't get enough to eat.

I don't know why American children should be going hungry here as well as in Ethiopia.

The unnamed baby of Mary, who came to our attention recently, died in utero after his mother was turned away from a hospital because she could not afford to pay the whole cost of delivery. This poor mother, like millions of poor mothers, is not covered by any private or public health insurance at a time when we are cutting back on public health programs.

Homelessness is disgracefully affecting our cities and rural areas. Burt spent 2 of his earliest months of life in a shelter for the homeless after he and his mother had been evicted from their apartment building because the landlord had not paid the mortgage.

We get so caught up in figures that we do forget the human children behind it.

Let's look at the President's fiscal year 1987 budget in light of these realities for millions of families and their children.

The Reagan budget proposes to cut more than $6 billion from programs serving poor families and children. That is not even counting, Mr. Chairman, low-income housing which we have not included in the $6 billion figure.

It does not include the Gramm-Rudman cuts and it does not include the fiscal year 1986 rescissions which are a part of the President's new budget.

He is proposing to cut another $6 billion, or 8 percent, from survival programs serving poor families and children while adding more than $30 billion to an already bloated Defense Department that can't even spend the money you have already given them in increases over the last several years.

In spite of nationwide increase in postneonatal mortality, a nationwide increase in low birth weight babies that contribute to infant mortality, and a drop in the provision of the essential prenatal care, the President's new budget calls for immediate and drastic reductions in key maternal and child health programs. It proposes to cut an additional $1.3 billion in Medicaid, the most important health program for low-income, pregnant women and children in the country, at a time when Medicaid is serving the lowest percentage of poor children it has served in over a decade.

The President's budget is proposing to cut funding for community health centers and migrant health centers that serve our most vulnerable children. This will mean the denial of essential prenatal care and preventive health services to pregnant women and children already at great risk.

The President even proposes to cut immunizations by $3 million which means that thousands fewer children will be immunized next year at a time when half of all black preschool children in this country are not fully immunized against preventable diseases.

Despite black teenage unemployment levels exceeding 40 percent—in some cities 50, 60 percent—and thousands of welfare mothers who want to work, the President proposes to cut the rungs from their ladder to self-sufficiency by slashing Job Corps funds by 45 percent with more rescissions this year, cutting the Summer Youth Employment Program by 35 percent, which estimate would eliminate summer job opportunities for more than 325,000 teens.

He proposes to reduce the Vocational Education Program by over one-half in 1987, plus add more rescissions this year to cut low-income student aid programs more than 24 percent, to completely eliminate the Work Incentive Program, or WIN that provides assistance to welfare mothers seeking work.

He also proposes to cut back on child care that is critical to low-income mothers working or seeking work.

We all know about hunger. It has been documented over and over again. We now know about the growing homelessness from the mayors and from other sources, yet the President's response is to cut $1 billion from Food Stamps, AFDC, and child nutrition, on top of the massive cuts that have already been made in these programs.

He even proposes reducing funding for the tiny, already inadequate programs to protect children and other victims of family abuse and violence by more [illegible].

He proposes to eliminate the Emergency Food and Shelter Program which provides $70 m[illegible] and nonprofit agencies.

He proposes to eliminate the Temporary Emergency Food Assistance funds which [illegible] help defray the cost of distributing surplus foods to the needy through food banks and soup kitchens.

He goes after low-income housing programs. He virtually emasculates them at a time of growing homelessness.

The President's State of the Union Message, as we all heard, envisions our children flying to Tokyo on an Orient Express of the future in 2 hours, but his budget lacks the vision that guarantees them the health, education, training to compete equally when they get there.

These misguided budget priorities reflected in the last 5 years and continued in this new fiscal year 1987 budget of the President are giving way to a new set of national beatitudes. They measure success not by how many needy pregnant women can be provided cost-effective prenatal care to prevent infant deaths and birth defects, but by how many families can be denied Medicaid and turned away from public health plans.

They don't measure success by how many hungry infants can be nourished, but by how many Federal nutrition dollars can be held back as the waiting list of hungry children grows; not by how many poor, homeless families are provided adequate shelter and minimum food, but by how many MX missiles we can find a hiding place for.

They don't measure success by how many new babies we can keep alive in the first year of life, but by how many new nuclear bombs we can warehouse to wait for war.

The Reagan rhetoric tells us that it is more blessed to judge than to help the poor; that private charity is an adequate substitute for public justice.

It tells us that the daily welfare payment of $3.87 a person to poor mothers and children encourages dependency, but daily Federal payments far more to tobacco companies does not; that it is proper for Government to subsidize three-martini corporate lunches, but improper for Government to subsidize child care to help millions of poor working mothers escape welfare.

Mr. Reagan tells us spending millions of dollars on golf outings, and sports tickets, and barber shops for defense contractors is a more justifiable, national security expenditure than compensatory education for disadvantaged children who have to man those machines of the military of the future.

It tells us that more Government support for rich families strengthens families, while Government help for poor families weakens families.

It tells us that it is acceptable to let poor children die today from internal deprivation to save them tomorrow from external threats.

It tells us that a child's right to life ends at birth and does not include the right to adequate prenatal and nutritional care in utero, or to survival health and nutrition and housing support in the first critical years of life.

[illegible]se national trends, hidden behind profamily and traditional [illegible]s rhetoric, are leading America toward a new apartheid be[illegible] rich and poor, white and black, old and young, Government and needy, corporate and individual, military and domestic, and it is throwing millions of poor children to the wolves of hunger, abuse, sickness, homelessness, and even death.

Not only do we have more poor children and families, those children that we have are poorer than they have ever been.

In 1983, 42 percent of poor children and families had to survive in this Nation with incomes below half of the poverty line, which is $3,969 for a family of three, and $5,089 for a family of four.

We can do something about child poverty. There are some very hardcore poverty people who live in poverty who are chronically unemployed, but most of these families we can help if we have the will and have the right set of national values.

Children are poor because their parents cannot get a job and because of economic downturn. We have already heard today about depression level unemployment rates that keep families poor and thus children poor.

Children are poor because their working parents cannot earn enough to escape poverty.

A minimum wage job in 1986 pays $6,700, only 75 percent of the poverty level for a family of three, and this Congress has got to work to bring that minimum wage into synchronization with inflation. It has not been brought up since Mr. Reagan took office.

Children are poor because their Federal Government, as you have already heard, is taxing their families into poverty.

A two-parent family of four with 1986 earnings of $11,500 will pay $1,223 in combined Federal taxes, or about 11 percent of his income this year. Their Federal tax burden as a proportion of its income increased by a whopping 450 percent since 1980.

In contrast, more than 3,000 households with incomes exceeding $1 million a year paid less than 5 percent of their income to the IRS in 1983. As we have already heard, many large corporations who earn tens of billions of dollars in profit paid not a net dime in Federal income tax while the Federal tax burden on the poor was increasing.

Children are poor because of changing family demographics, the dramatic growth of single-parent households. Many are dependent on welfare and again they need assistance in working their way off welfare. They need training, child care so they can get the decent jobs that we need to create for them, but we have got to deal with the growing poverty of single-parent families.

Finally, children are poor because of the decline in their Federal Government's support, crippling the efforts of the families to struggle out of poverty.

In 1984, 1.7 million children were reported abused and neglected, an increase of 40 percent since 1981, and we have been decreasing and cutting child abuse funds.

As you know, children account for more than 20 percent of the homeless with estimates ranging upwards of 60,000 children, and we have cut back drastically on housing assistance.

We have been cutting back on runaway programs and the President even proposes to eliminate the Juvenile Justice Prevention Act.

We have far too many children who go hungry, and again among those $10 billion in program cuts that have affected poor children and families have been those affecting child nutrition; 700,000 fewer children receive school lunches, 500,000 fewer children receive school breakfast.

Despite the growing need for child care for others to escape welfare, 35 States report spending less for child care through title XX today than they did in 1981.

Now, as if the President's budget cuts weren't enough, poor children and families now face your Gramm-Rudman-Hollings Act in the Congress and we surely hope you will find a better way of going about deficit reduction.

We are extremely grateful to you, Mr. Chairman, and to Members of the House for insuring that eight key programs for the poor are exempted from the Gramm-Rudman buzzsaw, but many people think that you protected all the poor and all poor people's programs. But as you know you certainly did not because many essential Federal programs for poor children are not exempted from Gramm-Rudman's potential ravage.

The sequester order scheduled to go into effect on March 1 will cut approximately $1 billion from programs for children and families.

Further implementation of Gramm-Rudman will mean the literal dismantling of successful Federal efforts for children and families.

For example, the sequestration figures estimated for fiscal year 1987 would eliminate more than 100,000 children from Head Start, more than 1 million from chapter I basic reading and math and deny additional millions vital education, training, housing and other forms of Federal support.

Gramm-Rudman's mindless, no-hands approach to deficit reduction defies fairness as well as rationality. It not only fails to address the tax shelters and subsidies that added over $110,000 to the deficit by fiscal year 1985, but its across-the-board spending reductions only exacerbated the existing inequities in the Federal budget.

The Defense Department and programs for poor children may suffer roughly equal percentage cuts under Gramm-Rudman, but their starting places are widely disparate.

Defense spending, as you know, has more than doubled since 1980 while childrens' spending has been decreased by $150 billion. To cut both equally, in quotes, under Gramm-Rudman, is equivalent to putting an overweight adult and a malnourished child on the same diet.

We hope that this Congress, this House Budget Committee, will reject the policies reflected in the President's fiscal year 1987 budget, will reject the policies in Gramm-Rudman and will find a more rational and fair way to chart a new budgetary course. It is time to begin to invest in the Nation's real security which is poor children and poor families.

It is not only the right thing to do, it is the practical thing to do. We no longer in this Nation have a margin for human neglect. We can no longer afford to write off millions of children because they are other people's children.

We need those children of other people to pay for our Social Security as you and I get old.

While in 1950 there were 17 workers for every retiree, by 1992 that ratio will have shrunk to 3 workers for each retiree and 1 out of every 3 of those workers will be from a racial minority. At least 1 in 4 of them will have lived in poverty.

I don't think we can afford to miss any potential Ronald McNair or Henry Cisneros or George Washington Carver if we are going to maintain this Nation's competitive edge in the 21st century and have the kind of stable support we all look for in our old age.

We will in our upcoming budget analysis, Mr. Chairman, lay out a detailed children's survival bill for targeted preventive investment in the Nation's children and families.

We think this is a program we cannot afford not to do. We need to be investing more dollars in WIC so we can save later Medicaid and other remediation costs. We cannot afford to have only 20 percent of children in Head Start. We need to be preventing the special education problems and others that cost us more money after the fact.

I hope you will look at that proposal. I hope you will this year provide the leadership we need to redirect America on a path of fairness and on a path of practical investment in the Nation's children and families. Thank you.

[Testimony resumes on p. 60.]

[The prepared statement and attachments of Mrs. Edelman follow:]

PREPARED STATEMENT OF MARIAN WRIGHT EDELMAN

President Reagan's Fiscal Year 1987 budget continues to turn our national plowshares into swords while offering not a shred of defense for the millions of American children and families whose number one enemy is poverty.

Poverty kills and cripples more American children each year than any foreign enemy ever did. Yet the Reagan budget priorities continue to let children die from preventable infant mortality, sickness, abuse and neglect today in order to save them from an unwinnable war tomorrow.

After weakening America's children these last five years, and leaving them a legacy of debt exceeding a trillion dollars, the President's FY 1987 budget demands further sacrifice of them. In FY 1987, it proposes to cut more than $6 billion -- an 8 percent reduction -- from federal programs essential to their development into productive, self-sufficient adults while adding more than $30 billion to an already bloated military budget. It is a budget proposal that is once again based on perverse spending priorities that bless the greedy with the federal benefits of the needy, reward weapons makers over homemakers, and let banks rather than farmers' children inherit the earth.

The ill-conceived and short-sighted Reagan budget, like Gramm-Rudman, must be thoroughly and immediately rejected. The time is long overdue for Congress to chart a new budgetary course -- a course based on investment in rational deficit reduction, in families and in a future for our children and our nation.

The President charms the nation with his pro-family rhetoric, while masking budget policies that sap family stability and strength Does the President, who eloquently speaks in his State of the Union message of children's right to life, propose policies that will save the lives of an increasing number of poor American infants dying between 28 days and one year of life? A black infant in Chicago is more likely to die in the first year of life than an infant born in Cuba or Costa Rica.

Despite a nationwide increase in postneonatal mortality and low birthweight babies, and a related drop in the provision of essential prenatal care, the President's FY 1987 budget calls for immediate and dramatic reductions in key maternal and child health programs including:

- An additional $1.2 billion cut in Medicaid -- the most important health program for low income pregnant women and children in the country. Additional large cuts are proposed over the next five years exceeding the billions already cut from the program since 1981.
- Funding reductions in Community Health Centers and Migrant Health Centers that will mean the denial of essential prenatal care and preventive health services to pregnant women and children in need of them.
- A $3 million cut in Immunizations which when combined with the rampant inflation in the vaccine program in recent years (experts expect another 36% rise in the cost of polio vaccine alone this year) will lead to thousands fewer children immunized next year.

Does the President, who claims it is government's role "to help those in need . . . and above all, to create a ladder of opportunity to full employment so that all Americans can climb toward economic power and justice on their own," propose budgetary policies that provide for the employment training, child care and other services youths and welfare mothers need? No, despite black teenage unemployment levels exceeding 40 percent, and thousands of welfare mothers who want to work, the President proposes to cut the rungs from the ladder to self-sufficiency by:

- Slashing Job Corps funds by 45 percent, with $196 million in rescissions this year, and a $288 million cut in FY 1987.
- Cutting the Summer Youth Employment program by 35 percent, eliminating summer job opportunities for more than 325,000 teens.
- Reducing the Vocational Education program by over half in 1987 on top of over $200 million in planned rescissions this year.
- Cutting low income student aid programs more than 24% -- $1.3 billion in FY 1987 alone.
- Completely eliminating the Work Incentive program that provides assistance to welfare mothers seeking work.
- Cutting back on child care critical to low income mothers working or seeking work, by eliminating the new $5 million after school child care program and freezing funds for Title XX Social Services Block Grant.

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Do the President's budget policies "make our commitment to the truly less fortunate. Not by taking from those in need. As families take care of their own, government must provide shelter and nourishment for those who cannot provide for themselves."? No. The President apparently views taking care of one's own by slashing lifelines to food, shelter and basic protective services including:

- Cutting over $1 billion from Food Stamps, AFDC and Child Nutrition on top of the massive amount of funds already withdrawn from these survival programs.
- Reducing funding targetted for abused and neglected children and other victims of family violence by more than 20 percent.
- Eliminating the Emergency Food and Shelter program which provides $70 million to local public and private nonprofit agencies dealing with hunger and homelessness.
- Eliminating the Temporary Emergency Food Assistance funds which provide $50 million to help defray costs of distributing surplus foods for the needy through food banks and soup kitchens.
- Cutting approximately $5 billion from Housing Assistance for the Elderly and Handicapped, and Low Income Housing Assistance.
- Eliminating the $183 million Low Income Weatherization program.

We are pleased that the President finds that family and community are the costars of his Great American comeback -- and "They are why we say tonight: private values must be at the heart of public policies." Yet I question what kind of private values lie at the heart of public budgetary policies that:

- o Continue subsidies of the tobacco industry while cutting subsidies for health care for poor pregnant women and children.
- o Propose to increase the military budget next year by more than the entire amount proposed to be spent by the federal government for two of the largest programs for the poor -- Food Stamps and Aid to Families with Dependent Children.
- o Envision our children flying to Tokyo in two hours, without a vision that guarantees them the health, education, training, care and guidance necessary to compete equally when they get there.
- o Find $3.9 billion in an era of tight budgets to buy 216 new F-16 Fighter planes, but not find a cent to fund one new Head Start child. Buying 10 less planes would free up enough funds to give 75,000 poor young children a Head Start on the American dream!

General Omar Bradley sums up the priorities and values inherent in the President's current and past budget policies better than I.

> We have grasped the mystery of the atom and rejected the Sermon on the Mount ... Ours is a world of nuclear giants and ethical infants. We know more about war than we know about peace, more about killing than we know about living ...

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Congress and the American people know it is time to reverse the budget policies consistently recommended by the President -- budget policies based on questionable values that have produced deficits of catastrophic proportions, weakened our national and international economic standing and torn shreds in our family fabric. For while the rich have gotten richer, often with more government help under these policies, most families are getting poorer and are getting less assistance.

American families and their children are in trouble. The median income for all families with children is lower now than it was in the 1970's. Most tragic, more and more families are classified by their own government as officially poor. Not only have the numbers of families with children in poverty increased, but the poor have become poorer. Thirteen million of America's children now live in poverty, and in 1983 42.2 percent of them lived in families with income below one half of the poverty line ($3,969 for a family of three, and $5,089 for a family of four).

Child poverty has multiple causes. Despite the President's boast of an economic recovery, children are poor because of economic downturn and depression-level parental unemployment. Recovery has done little to lift up the more than 3 million children who were added to the official poverty rolls between 1979 and 1982.

Children are increasingly poor even if their parents are fortunate enough to find employment. For employment is no longer a guarantee against poverty in the America of the 1980's. More and more parents are struggling to support their children through work -- yet low wages and reduced government support keep them in poverty.

The plight of the working poor has worsened significantly under the policies of this administration. Benefits and assistance have been withdrawn from the working poor under Medicaid, AFDC, Food Stamps, and Child Nutrition programs. Few low paying jobs provide basic health insurance coverage or other benefits for workers or their children. The failure to adjust the minimum wage even for inflation since 1981 prevents many working parents from earning enough to escape poverty. A full-time minimum wage job in 1986 pays $6700 -- 75 percent of the poverty level for a family of 3. Another obstacle in the path to self-sufficiency for low income working families has been the large and growing federal tax burden imposed on them since 1980. A family of four earning poverty level wages in 1986 will pay between 10 percent and 12 percent of its income in federal taxes alone. Despite the rosy picture painted by the President, we no longer live in an America in which very young men can earn enough to support a family, and we never had an America in which the average single woman with children could earn a decent wage at any age.

Children are also poor because of changing family demographics particularly the growth of female headed families. Since 1975, the number of children living in female headed families has increased 20%. Today, one in 5 of all children lives in a single parent, female headed household. Over half of them are poor.

Children in one group of particularly vulnerable female headed households -- those headed by young mothers, especially teens -- requires the comprehensive systematic attention of all elements of American society. Three-quarters of all single mothers under 25 live in poverty. With more than half of all teen mothers today raising their children alone, and with those who are married facing higher rates of separation and divorce, the costs of teenage parenthood -- to the parents, to the children and to society in terms of money spent and productivity lost -- are too great to ignore.

Over the past three years, almost every major black organization has made teenage pregnancy prevention, youth self-sufficiency and strengthening black families a major priority. It is critical for other church, community and school organizations to focus on these problems as well. But self-help is not enough. There is a role for government as well, as teenage pregnancy and parenthood are immediately intertwined with poverty and economic opportunity. Efforts to help poor families and children achieve self-sufficiency that are short-lived and underfunded have only exacerbated the problem, however, and shrinking goverment help now promises to further deprive the deprived.

Finally, and most tragically, children are poor because of declining support from their federal government. Since 1980, $10 billion has been snatched from poor children to pay for tax breaks for the wealthy and to finance the largest military buildup in peacetime history. The decline of federal assistance not only crippled the efforts of families to struggle back out of poverty, but it made living in poverty an even harsher existence for 13 million children. Study after study reveals greater suffering and deprivation among the young and vulnerable:

- 1.7 million children were reported abused and neglected in 1984, an increase of 40 percent since 1981.
- Children account for more than 20 percent of the homeless in shelters, according to a recent HUD study -- with estimates of the number of homeless children ranging up from 60,000.
- 20 million Americans regularly go hungry according to the recent Physicians Task Force on Hunger in America; the number of families with children requesting emergency food services increased during 1985 by an average of 30 percent in 23 to 25 cities recently surveyed by the U.S. Conference of Mayors.
- 700,000 fewer poor children receive school lunches and 500,000 fewer receive school breakfasts today than in 1980.

- Between 1981 and 1983 Cook County Hospital in Chicago experienced a 24 percent increase in the number of children admitted for failure to thrive, diarrhea, or dehydration: conditions often linked to inadequate nutrition. Follow-up studies found that 30 percent of all children coming to the hospital's emergency room had abnormally low rates of growth, and that half of these "low growth" children suffered from inadequate diets.
- Less than half of black preschool children are fully immunized against preventable diseases.
- 5,500 black babies would not have died in 1983 if infant mortality rates for blacks equalled those for whites. 700 babies would not have died in 1983 if previous improvements in infant mortality rates had not slowed.
- 35 states report spending less for child care through Title XX today than they did in 1981, when costs are adjusted for inflation. Only 20,000 of the 300,000 Pennsylvania children needing subsidized child care received it.

In spite of these dramatic figures, the President's budget proposes to continue policies of costly neglect for millions of children and their families, policies that jeopardize our national future and our soul.

As if the President's budget has not hit our poorest children and families enough, a new budget guillotine called Gramm-Rudman has been dragged out by the Congress to slice more children's programs in order to shave a deficit they did not cause. While we are extremely grateful to the Chairman and

Members of the House for ensuring that 8 key programs for the poor are exempted from Gramm-Rudman's budget buzzsaw, many other essential federal programs for poor children are not exempted from its potential ravage. The sequester order scheduled to go into effect on March 1 will cut approximately $1 billion from programs for children and families. Further implementation of Gramm-Rudman will mean the literal dismantling of successful federal efforts for children and families. The sequestration figures estimated for FY 1987 would, for example, eliminate more than 100,000 children from Head Start, more than 1 million from Chapter I basic reading and math services, and deny additional millions vital education, training, housing and other forms of federal support.

Gramm-Rudman's mindless, no hands approach to deficit reduction defies fairness as well as rationality. It not only fails to address the tax shelters and subsidies that added over $110 billion to the deficit by FY 1985, but its across the board spending reductions only exacerbate the existing inequities in the federal budget. The Defense Department and programs for poor children may suffer roughly equal percentage cuts under Gramm-Rudman, but their starting places are widely disparate. Defense spending has more than doubled since 1980 while funding for the Social Services Block Grant (Title XX), for example, has been cut approximately 40 percent. To cut both by roughly the same percent will hardly affect both equally. It is like putting an overweight adult and a malnourished child on the same diet.

The policies and politics of Gramm-Rudman and the President's budget must be finally and firmly rejected. This Committee and this Congress face the monumental task of charting a new budgetary course -- a course of deficit reduction and governmental investment for human survival and opportunity, for budgetary prudence and economic strength. We do not underestimate the careful study, hard decisions, moral courage and political will required for the task. Leadership, however, requires no less.

We believe that wise investment in our nation's children is the best investment for our nation's future. A strategy for investment in children must be guided by principles of prevention and cost-effectiveness as well as compassion, and it must be directed to the development of healthy, educated children, self-sufficient youths as well as strong families. Such a strategy requires:

1. No further budget cuts in federal programs vital to the survival of poor children and families;
2. Selective new investments to combat epidemic child and family poverty and promote economic growth and development toward self-sufficiency; and
3. Reform of the welfare system through positive not punitive solutions.

A new investment policy in children and youth is not only a moral imperative, it is a practical necessity. Children are the country's future workers and taxpayers, its future leaders, artists, teachers and scientists. Today's children must shoulder the trillion dollar national debt, finance our Social Security system and lead this country into the 21st century. All Americans have a stake in our younger generation.

We no longer have any margin for human neglect. While in 1950, there were 17 workers for each retiree, by 1992 that ratio will have shrunk dramatically -- to three workers for each retiree. One out of every three workers will be from a racial minority. And at least one out of every four will have lived in poverty. America will need every potential Abraham Lincoln and George Washington Carver and Ronald McNair and Henry Cisneros to maintain its competitive edge in the 21st century and support us in our old age.

Wise investment in cost-effective, preventive programs for children is also sound economic policy in a time of budgetary crisis. Study after study document the savings generated from investments in prevention. Every dollar invested in comprehensive prenatal care, for example, saves over $3 in reduced health care costs in the first year alone of an infant's life. That same dollar saves up to $11 in total medical expenses over the lifetime of the child. Every dollar invested in Head Start returns $7 in reduced public expenditures and increased public receipts by program participants.

Years of research also prove the success of many critical children's programs -- they not only work, but work well. I was fortunate enough recently to have met the first Head Start child from Harvard University. We are likely to see more soon because:

- Poor children enrolled in Head Start, for example, score better on standardized tests than their peers; achieve more in school; are less likely to be absent, fail a grade, drop out of school, or need special education classes; and are more likely to finish high school, continue education beyond high school, and be employed. Yet Head Start serves only 18 percent of those eligible and in need.
- Prenatal care programs under WIC, Medicaid, and the Maternal and Child Health Block Grant increase birthweight of infants, reduce premature births, and reduce neonatal infant mortality. Yet the number of women receiving late or no prenatal care is increasing.
- Compensatory education programs eliminated 40 percent of the gap between black and white elementary school children in the 1970's, despite serving fewer than half of those in need. Studies show that Chapter I students consistently gain more in reading and math skills than children not participating and that these gains continue after participation ends.

The Children's Defense Fund has developed a Children's Survival Bill -- an agenda for governmental investment in children and families. It is a sound and balanced deficit reduction package that proposes to invest additional resources in federal programs designed to rescue children from the clutches of poverty and invest in them before they become ill, are left alone, have a baby or drop out of school. The Children's Survival Bill proposes investments in cost-effective preventive programs such as Head Start, WIC, Medicaid and Chapter I that guarantee the self-sufficiency and productivity the nation and the economy require.

We propose that additional investments in children and families will be more than offset by deficit reduction achieved through the elimination of tax loopholes that shelter the income of wealthy corporations and individuals, new taxes on luxury items and cigarettes and recouping just a portion of the billions of unused and unspent funds in the Defense Department.

We urge you to review the Children's Survival Bill as an alternate budget plan that addresses the problems currently facing our children, our families and our nation.

Recent attention has focussed on the "failures" of the national welfare system. There are those who look at a family cluster with a one year old infant, a 15 year old mother, and a 30 year old grandmother and stridently preach that the problem is due to welfare-bred dependency. Do away with welfare and the problem will disappear. They seem to forget that sex came before Aid to Families with Dependent Children (AFDC).

While welfare does not cause teen pregnancy -- most teen pregnancies are unintended -- it is true that our current welfare system does not encourage the formation of two parent families nor strengthen single parent families. Most states do little to help single mothers gain the skills and experience they need to get decent jobs, and half of the states exclude two-parent families from welfare. We must improve the welfare program, give recipients the chance to get the necessary skills, employment training and child care they need to become self-sufficient.

The problems of child poverty -- like the problems of the deficit -- are not insoluable. In many ways they are not difficult or particularly expensive to solve. We have made great strides in reducing poverty among the elderly but we have yet to make a long term concentrated effort to eliminate poverty among children. Selective investments in preventive cost-effective programs of proven success is the place to start. Rational budget policies that invest in our children -- while tackling the roots of the current budget deficits -- is the best course for the future.

All of us at the Children's Defense Fund look forward to working with you in the months ahead in the development of a budget plan for FY 1987 that makes the investments in deficit reduction and in children that strong families and strong nations require.

The CHAIRMAN. Thank you very much. You have been quite specific in your testimony and you paint an entirely different picture than the one that was painted for us in the Congress and for the American people last week. There was one vision of the state of America submitted by the President, particularly that families were stronger, and that they were growing together. I hear you saying that the vision that was given to us both very beautifully and eloquently by the President in the State of the Union Address as well as in his budget are a major contradiction.

I need to ask you a question because I was quite shocked by something you said.

Last week the President had with him a young man from Philadelphia. He has become quite famous for his concern for the poor and for the homeless in my city. The young man, because he saw people hungry lying on grates, went out and started to feed the hungry, clothe the naked, gave drink to the thirsty, and quite rightfully so. The President recognized him for that compassion and commitment.

Now, are you saying that on Tuesday night the President congratulated that young man for helping the homeless, but on Wednesday when he submitted his budget, he cut the very programs that help deal with the problems of the homeless in Chicago, in Philadelphia, Washington, San Francisco, San Diego, and Houston? I find that hard to believe.

Ms. EDELMAN. In fact, that young man whom he congratulated is out there on those grates to try to bring some heat and some food precisely because of the President's previous policies that made it necessary for him to be there. The poor don't deserve just our charity. They deserve public justice and the President really has mixed up two fundamental concepts.

While I think each of us must do more as individual Christians, as individual people and caring citizens, that can be no substitute for Government policies that treat poor families as they also treat rich families.

One of the ironies of the last few years under this President, is that a number of families are better off. The wealthy, upper middle-class families have really achieved more with more Government support while the poor families have been torn apart and given less Government support. Something is wrong here.

The CHAIRMAN. Could you cite any specific figures on the homeless programs he is cutting?

Ms. EDELMAN. Yes, sir.

The CHAIRMAN. Just give us an example because I find it very disturbing that the President at the State of the Union would single out a young man who helped the homeless, and the very next day in his budget undercut that which he recognized as extremely important.

Ms. EDELMAN. Let me give you a litany, Mr. Chairman.

The CHAIRMAN. Just give us a couple examples on that which helps the homeless.

Ms. EDELMAN. The Emergency Food and Shelter Program which provides funds for local public and private nonprofit agencies, he is proposing to eliminate $70 million in fiscal year 1987.

The CHAIRMAN. So the entire $70 million?

Ms. Edelman. He is proposing to eliminate that completely.

Temporary emergency food funds, $50 million, this money helps defray costs of storing and distributing surplus Government foods provided to the needy through soup kitchens and food banks.

He would cut funding for housing assistance for the elderly and handicapped which helps nonprofit and private entities construct and rehabilitate housing.

The **Chairman.** In other words, not only are you reducing the support from the Federal Government to deal with the problems of the homeless, which this young man was rightfully commended for, but you are also—most of this money as I hear you describe it, goes to voluntary organizations that use it to leverage further contributions, charity and volunteerism which the President says he wants.

So, therefore, you are cutting back on putting together a combination of private voluntary contributions as well as some Government help and thus you would undercut the entire program; is that correct?

Ms. Edelman. Yes, sir. He is hurting the poor—he is attacking housing coming and going. He is attacking public housing in a very significant way and now he is undermining the private capacity to help respond to growing homelessness that his own policies have created.

The **Chairman.** One last question Mrs. Edelman. You said there is a cut of $6 billion in the fiscal year 1987 budget of the President for programs directly related to families. You also pointed out that this does not reflect the March 1 Gramm-Rudman cuts under sequestration nor does it reflect the deferrals and the rescissions the administration is requesting. Could you give us what the actual total is in terms of reduction not just the $6 billion in 1987?

Do you have any idea of what the rescissions and deferrals for 1986 as well as sequestration of March 1 of Gramm-Rudman would combine to mean?

Ms. Edelman. We will have to give you that total figure, Mr. Chairman. We are still trying to complete all of that, but I could give you some specifics on Gramm-Rudman.

In addition to the more than $6 billion cut in fiscal year 1987 we will give you the rescissions. We will just have to add all those up and submit them to the committee, but in addition, we do know that under Gramm-Rudman, Head Start is going to lose $37 million, chapter I will lose another $160 million. Social Services will lose another $160 million.

The Job Corps would lose another $25 million. Summer jobs for youth would lose another $30 million, but we will submit for the record a grand total when we have completed those tabulations.

The **Chairman.** Thank you very much.

[The information referred to follows:]

Total cuts aimed at poor people and families

	Billions
Fiscal year 1987 cuts proposed by President	$7.07
Fiscal year 1986 rescissions proposed by President	1.51
Fiscal year 1986 Gramm-Rudman cuts	1.09

SUMMARY OF FISCAL YEAR 1987 FUNDING PROPOSED FOR CRITICAL PROGRAMS FOR CHILDREN

	Fiscal year 1987 current policy (dollars in millions)	Fiscal year 1987 proposed level (dollars in millions)	Change proposed in level (dollars in millions)	Change proposed in level (percent)
Categorical Programs				
Compensatory Education	3,695.7	3,688.2	-7.5	-0.2
Handicapped Education	1,411.0	1,303.1	-107.9	-7.6
Student Financial Aid	4,887.0	3,812.6	-1074.4	-22.0
Student Loans	3,300.0	2,329.6	-970.4	-29.4
Maternal/Child Health	478.0	478.0	0.0	0.0
Mental Health Block Grant	490.0	490.0	0.0	0.0
Child Welfare Services	207.0	200.0	-7.0	-3.4
Child/Family Abuse	39.5	30.5	-9.0	-22.8
Social Service BG	3,066.0	2,700.0	-366.0	-11.9
Juvenile Justice	70.3	0.0	-70.3	-100.0
Runaway Youth	23.3	23.3	0.0	0.0
Head Start	1,087.1	1,075.0	-12.1	-1.1
Energy Assistance	2,100.0	2,100.0	0.0	0.0
Youth Employment	664.5	428.0	-236.5	-35.6
Job Corps	640.0	351.7	-288.3	-45.0
Legal Services	305.5	0.0	-305.5	-100.0
Entitlements				
Food Stamps	12,826.0	12,512.7	-313.3	-2.4
Child Nutrition	4,600.7	3,830.3	-770.4	-16.7
AFDC and Child Support	9,211.0	8,933.0	-278.0	-3.0
Foster Care and Adoption	643.0	604.0	-39.0	-6.1
Medicaid	25,880.0	24,708.0	-1,172.0	-4.5
Total	75,625.6	69,598.0	-6,027.6	-8.0

	Fiscal year 1985	Fiscal year 1986	GRH 1985	Fiscal year 1987	Difference	Percent cut
Head Start	1,075.0	1,087.1	1,040.0	1,075.0	-12.1	-1.1
Social Services BG	2,725.0	2,700.0	2,584.0	2,700.0	0.0	0.0
After school and dependent	0.0	5.0	4.8	0.0	-5.0	-100.0
Community Services BG	368.1	366.0	350.0	0.0	-366.0	-100.
Indian Social Services	29.0	29.0	27.8	27.3	-1.7	-5.9
Runaway Youth	23.3	23.3	22.3	23.3	0.0	0.0
Juvenile Justice	70.3	70.3	67.3	0.0	-70.3	-100.0
Child/Family Abuse	26.0	39.5	37.8	30.5	-9.0	-22.8
Child Welfare Research	11.8	11.8	11.3	8.4	-3.4	-28.8
Child Welfare Services	200.0	207.0	198.3	200.0	-7.0	-3.4
Child Welfare Training	3.8	3.8	3.7	3.8	0.0	0.0
Subtotal	4,532.3	4,542.8	4,347.3	4,068.3	-474.5	-10.4
Maternal and Child Health	478.0	478.0	457.4	478.0	0.0	0.0
Preventive Health BG	89.5	91.5	87.5	89.5	-2.0	-2.2
Mental Health BG	490.0	490.0	468.9	490.0	0.0	0.0
M.H. Community Support	10.5	12.5	12.0	0.0	-12.5	-100.0
Developmental Disabil.	75.7	80.4	76.9	73.0	-7.4	-9.2
Immunization	54.2	59.6	57.0	56.0	-3.6	-6.0
Venereal Disease Prevent	53.0	56.3	53.9	55.5	-0.8	-1.4
Primary Care BG	573.1	591.3	580.6	565.1	-26.2	-4.4
Community Health Centers	383.0	400.0	396.0			
Black Lung Clinics	3.3	3.4	3.4			
Migrant Health	44.3	45.4	44.9			
Family Planning	142.5	142.5	136.4			

	Fiscal year 1985	Fiscal year 1986	GRH 1985	Fiscal year 1987	Difference	Percent cut
Subtotal	1,824.0	1,859.6	1,794.2	1,807.1	-52.5	-2.7
Compensatory Education	3,695.7	3,695.7	3,536.8	3,688.2	-7.5	-0.2
Handicapped Education	1,321.3	1,411.0	1,350.3	1,303.1	-107.9	-7.6
Bilingual Education	143.0	143.0	136.8	143.0	0.0	0.0
Chapter II	531.9	528.9	506.2	528.9	0.0	0.0
Vocational Education	831.3	838.8	802.7	408.1	-430.7	-51
Indian Education	67.4	67.1	64.2	67.1	0.0	0.0
Follow Through	10.0	7.5	7.2	0.0	-7.5	-100.0
Women's Educational Equ	6.0	6.0	5.7	0.0	-6.0	-100.0
Civil Rights IV-A Centers	24.0	24.0	23.0	0.0	-24.0	-100
Student Financial Asst	4,910.5	4,887.0	4,675.4	3,812.6	-1,074.4	-22.0
Guaranteed Student Loans	3,798.3	3,300.0	3,260.0	2,329.6	-970.4	-29.4
Higher/Continuing Ed	474.1	450.2	430.9	238.6	-211.6	-47.0
Subtotal	15,813.5	15,359.2	14,799.2	12,519.2	-2,840.0	-18.5
Supplemental Food (WIC)	1,500.0	1,560.6	1,559.7	1,617.0	56.4	3.6
Job Corps	617.0	640.0	612.5	351.7	-288.3	-45.0
Summer Youth Employment	824.5	664.5	636.0	428.0	-236.5	-35.6
Low income energy asst	2,100.0	2,100.0	2,009.7	2,100.0	0.0	0.0
Legal Services	313.0	305.5	292.4	0.0	-305.5	-100.0
Rehabilitation Services	1,234.0	1,362.0	1,309.8	1,225.4	-136.6	-10.0
Work Incentives	266.8	220.0	210.5	0.0	-220.0	-100.0
Appalachian Area Devel	6.5	0.7	0.7	0.0	-0.7	-100.0
Subtotal	6,861.8	6,853.3	6,631.3	5,722.1	-1,131.2	-16.5
Total	29,031.6	28,614.9	27,572.0	24,116.7	-4,498.2	-15.7

	Fiscal year 1987 current policy	Fiscal year 1987 proposed level	Difference	Percent cut
Food Stamps	12,826.0	12,512.7	-313.3	-2.4
Child Nutrition	4,600.7	3,830.3	-770.4	-16.7
AFDC and Child Support	9,211.0	8,933.0	-278.0	-3.0
Foster Care and Adoption	643.0	604.0	-39.0	-6.1
Medicaid	25,880.0	24,708.0	-1,172.0	-4.5
Total	53,160.7	50,588.0	-2,572.7	-4.8

GRAMM-RUDMAN-HOLLINGS CUTS IN FISCAL YEAR 1986 IN MAJOR ENTITLEMENTS

Program category	Fiscal year 1986 BA in millions	4.3 percent cut in millions	Actual cut in millions	Discrep from 4.3 percent
AFDC and Child Support				
AFDC				
Research	$2.925			
Admin	33.737			
Reimb	0.103			
Total	36.765	1.581	1.585	0.004
Child Support				
New BA	432.601			
Prior year	160.000			

GRAMM-RUDMAN-HOLLINGS CUTS IN FISCAL YEAR 1986 IN MAJOR ENTITLEMENTS—Continued

Program category	Fiscal year 1986 BA in millions	4.3 percent cut in millions	Actual cut in millions	Discrep from 4.3 percent
Advance	170.750			
Total	763.351	32.824	33.128	0.304
AFDC & Child Support Enforcement:				
Total		34.405	34.713	0.308
Foster Care and Adoption				
Foster Care:				
New BA	507.641			
Suppl. BA	93.057			
Total BA	600.698			
Less 1985	485.423			
Total	115.275	4.957		
Adoption Assistance:				
New BA	41.948			
Suppl. BA	7.171			
Total	49.119	2.112		
Both combined:				
Total	164.394	7.069		
[Check All Other Family Social Services]				
New BA	227.648	9.789		
Check Total		16.858	16.407	−0.451]
Medicaid No GRH cut (the $62 million is old BA lapsing)				
Food Stamps:				
Printing coupons	58.517	2.516	2.568	0.052
Child nutrition admin	3.427	0.147	0.144	−0.003
W.I.C.:				
Guess?	2.000	0.086	0.086	0.000
[Admin	2.390	0.103	0.086	−0.017]

Fiscal year 1986 rescissions proposed by President

	Million
After school and dependent care	$4.8
Community services block grant	182.1
Juvenile justice	60.8
Child welfare/abuse	3.2
Child welfare services	6.1
Mental health block grant	39.7
Community health centers	21
Migrant health centers	.6
Compensatory education	7
Handicapped education	44
Vocational education	210
Follow through	7
Women's education equity	6
Student financial assistance	456
JTPA	416
Work incentive (WIN)	45.8
	1,510

The CHAIRMAN. The gentleman from Illinois, Mr. Russo.

Mr. Russo. Thank you very much, Mr. Chairman.

Mrs. Edelman, it is certainly a pleasure to have you here and have your testimony. It is important that the country understands exactly what this profamily budget is going to do for the family in this country. Your testimony is right on target and we need to unveil the budget for what it really is and I think that is an antifamily budget. Thank you very much for your testimony.

Ms. Edelman. Thank you.

The Chairman. The gentleman from Montana, Mr. Williams, a member of the committee, is recognized. He is also is a member of the Education and Labor Committee of the House of Representatives.

Mr. Williams. Thank you, Mr. Chairman. Mrs. Edelman, in your prepared statement, you have written, "A black infant in Chicago is more likely to die in the first year of life than an infant born in Cuba or Costa Rica."

The black infant mortality is that high in this city?

Ms. Edelman. Yes, sir, and in many other inner cities throughout the country. It is really a scandal.

Mr. Williams. Is the rate of mortality increasing or decreasing?

Ms. Edelman. The postneonatal mortality rates among black infants nationwide increased 5 percent between 1982 and 1983 and the preliminary data, provisional data for 1984, shows a continued erosion in postneonatal mortality rates.

What is said about this is that infants between 28 days of age and 1 year of age is that they were born with low birth weight and therefore are at much greater risk. But many of them are full-term infants, but not making it to their first birthday because of environmental deficits because there is not adequate housing and health care and family support systems.

This should be a matter of nationwide concern. The irony is we can do something about this with minimal supports of nutrition and decent housing. I think the policies that we have seen the last 5 years have contributed directly to this absolutely sad result and it is something we must begin to respond to, not only by not cutting these new health programs, but by increasing these preventive health programs for mothers and children. It will save money.

It costs us about $650 to grow a healthy baby providing comprehensive prenatal care. It costs us about $1,000 a day to save very sick babies and expensive neonatal intensive care nurseries, so we really need to talk about a preventive program in order to save money as well as save lives.

Mr. Williams. You also mentioned in your testimony that there are 13 million children living in poverty in America. I assume some of those children live on the streets. Do we know how many?

Ms. Edelman. I don't have a figure of how many. I mean, the runaway estimates are uncertain, but we do—I think it is safe to say there are hundreds of thousands of young people who are a combination of runaways, throwaways and homeless, but we will try to get you a more precise figure. We know it is a very serious problem.

Mr. Williams. Thank you, Mr. Chairman.

The Chairman. The Chair recognizes the gentlewoman from Illinois, Mrs. Collins.

Mrs. **Collins**. Thank you very much, Mrs. Edelman, for your very enlightened statement.

I have heard you testify before and as always you have excellent thought-provoking statements that all of us can think upon.

I, too, was shocked that a black infant in Chicago is more likely to die than those in so-called Third World countries. We are always talking about what a wonderful country America is and how it takes care of its own and how everything is rosy and right and yet it seems to me in listening to what you have said, and I know your statistics are accurate, we are about the business of killing off the poor people in America, particularly our infants.

It seems to me from what you have said and what we already know that is in the President's budget that we are to a very large degree killing the children before they are even 1 year old and once they get here the budget will starve half those children to death.

They don't have any immunizations, so they are going to get sick and perhaps die out. They have no house in which to live. They have no education so they can become good full citizens so what we are doing is effectively just writing off human beings in America today. I find that very distracting. I find it distracting because it is a movement afoot I cannot condone, that I will not condone, and none of us should sit still for.

If there is anything at all we have always heard from the day we were born America is a place for hope. Our young people are the future of America and I believe that America has a future, but we must indeed guard it and nurture it and nourish it and make sure. So, when we see a budget that does not do that, then we are not living as real Americans and the budget is not addressing our needs and I thank you for your remarks today.

The **Chairman**. The Chair recognizes the gentleman from Illinois, Mr. Hayes.

Mr. **Hayes**. Thank you, Mr. Chairman.

Mrs. Edelman, it just keeps trickling around in my mind, maybe you can elaborate on it a little bit. Certainly some of the statistics that you have in your statement in terms of the mortality rate among our children and what lies ahead for them as the budget goes into effect. This President, as you well know, at least philosophically proposes to be a leader of the right tc life movement. This seems somewhat contradictory to me. It seems to me they are more concerned about the fetus than they are for the kids after they get here from what you have said.

Ms. **Edelman**. There is a lot of hypocrisy, Congressman Hayes, in somebody insisting every child be born, but not providing them even in utero prenatal care the nutrition their mothers need, so those children can be born healthy.

I don't think right to life should stop at birth. I think we need to make him put up all those who believe that children should be born and they are entitled to that, but they should work as hard for prenatal care and adequate nutrition and adequate child care and decent housing because to do otherwise I think is to be a hypocrite.

Mr. **Hayes**. Thank you, Mr. Chairman.

The **Chairman**. The Chair recognizes the gentleman from Wisconsin, Mr. Moody.

Mr. **Moody**. Thank you, Mr. Chairman. Mrs. Edelman, as my colleagues point out, this is an excellent statement. It is very specific and that is what we need.

I was intrigued by your comments on Social Security. I talked about the increasing burden because of the decreasing ratio of workers to retirees. In fact, this burden will fall more and more on the working poor.

As you know, the Social Security payroll tax is going up again. It is in the process of going up another notch. Given the fact that your chances of being poor are much higher now if you are young than if you are old, and that is a real change from previous periods in our society, how did you feel about the sheltering or off-the-table approach to Social Security when we talked about the cuts that had to be made?

Ms. **Edelman**. Well, obviously we think that everybody should share equally in trying to reduce the Federal budget deficit, but we also think that while we have got to look at everything that there are some folk in line before the elderly always get hit. I think that the real cause of this deficit has been that extraordinary military buildup in a time of peace and the extra tax loopholes or breaks that were given in 1981 to the nonneedy corporations and individuals.

While we think everything eventually may have to be looked at, our priority obviously would be to curb the military budget and to deal with the tax loopholes which are taking so much out of the Federal bank today.

Mr. **Russo**. Would the gentleman yield?

Mr. **Moody**. Surely.

Mr. **Russo**. I think it is also important to note that Social Security doesn't add $1 to the deficit. In fact, Social Security is a solvent fund and what is happening because of that solvency is that the President would like it to be part of the unified budget so it doesn't make his deficit look any worse. So, once Social Security goes off budget, I think you will find that we will have a more accurate statement of exactly what the budget deficit is. But everyone keeps saying we have got to go to Social Security, we have got to cut benefits to balance the budget when in essence because of the increase in the rate and the increase in the income that is taxed, Social Security is in very good shape.

It is not adding or contributing 1 penny to the deficit. In fact, it is helping make the deficit not look so bad.

The **Chairman**. The gentleman from Illinois, Mr. Savage, is recognized.

Mr. **Savage**. Thank you, Mr. Chairman.

I read your written testimony and I would commend you for it. I certainly agree with the need to cut the military and to close tax loopholes. I want to ask you, however, how would you feel about the tax cut to the larger corporations in 1981, the tax cut in 1981 to the larger corporations that contributed to the deficit by decreasing Federal revenue? Do you feel that that tax cut needs to be restored or do you think cutting the military and closing tax loopholes would be sufficient to reduce the deficit and also restore domestic programs?

Ms. **Edelman**. I would say that 1981 tax giveaway, the largest in our history, to extremely wealthy corporations and individuals is a part of the trouble we are into now. That combined with the military buildup I think is what has contributed to this deficit and I obviously think corporations, wealthy corporations and individuals should be paying their fair share to support the National Government and they are not doing that and I don't think you are going to get out of this difficulty by picking on poor children and families more.

I think you have got to bite the bullet and figure out how you stanch the flow of revenues out to the nonneedy which you yourself created in 1981 and deal again with the military and try—all of us obviously favor a well-defined set of national security goals, but I don't think that is what we are dealing with here so you have got to deal with the military spending buildup and you have got to deal with the need for more tax revenues.

Mr. **Savage**. Thank you.

The **Chairman**. We have been joined by another outstanding member of the Illinois delegation, Congressman Lane Evans.

Congressman, would you like to ask Mrs. Edelman a question or pass on this one and catch up on the next one?

Mr. **Evans**. I am sorry I missed your testimony. I am also on the Select Committee on Children, Youth and Families where she testifies about the concern of children and families, so I will review it and maybe submit some questions if I have any.

Ms. **Edelman**. Terrific. Thank you.

The **Chairman**. We certainly want to welcome Congressman Evans who has been providing outstanding leadership in the House of Representatives.

Mrs. Edelman, let me thank you for your testimony. It has been very clear and really has addressed a major issue of what does our public policy and budget impact mean for families in America, therefore, after hearing your testimony I am once again understanding why the Republicans have pulled a vanishing act today because of the new meaning given to cut and run.

The President is cutting and they are running away even though there is a runner in the family, values and helping the family. This testimony that you have given seems to say clearly across the board the support for family is not there in the public policy.

We thank you. All your testimony will be submitted for the record.

Let the Chair recognize that at the end of our hearing session, it calls for an agricultural panel. However, at the end of that agricultural panel, we will take further testimony from a couple of grassroots citizens groups that are present. We will try to stay a little bit longer and take some quick testimony. We think it is important to hear those persons, and we hope to stay as long as we can so we would like to ask members of the committee to keep that in mind, that we will go a little bit longer than the agricultural panel.

The **Chairman**. At this time the Chair calls Pat Sharpe.

Ms. **Sharpe**. Mr. Chairman.

The **Chairman**. We welcome you to the committee, Ms. Sharpe. We would like to ask, if you could, to summarize your conclusions and your analysis. Your entire statement will be included in the record and printed as is and will become a permanent part of the record.

I welcome you and certainly we know of the great historic work of the Hull House, and we are just delighted to have you before us.

Please proceed in summarizing your testimony.

STATEMENT OF PAT SHARPE, EXECUTIVE DIRECTOR, HULL HOUSE ASSOCIATION

Ms. **Sharpe**. Thank you. My name is Pat Sharpe. I am executive director of Hull House Association. Hull House opened its doors in 1889 and since then has continued its service to the city of Chicago.

We have attempted to help individuals as they need help, and we have also attempted to change systems whenever that is possible.

We strive for civic improvement, cultural enrichment, and social justice. When I listened to the President's State of the Union Address I was well aware that he was talking about a world that I don't know and I don't see in the city of Chicago.

The world I deal with is significantly different. To believe that private philanthropy alone would be able to support and resolve the complex social issues that face us is a high level of wishful thinking.

There is a valid and essential role for Government, partly economic, partly as an expression of all citizens' concern for their society.

It has been common and popular to talk about social programs that don't work and to use that as a rationale for taking money from human services.

If there are social programs that don't work, I suggest they should be fixed, they should be programs that do work, and that taking money away from them is no way to solve the particular problems.

The testimony previously given by Ms. Edelman, is testimony that I appreciate and support and endorse. Many of the programs and services offered by Hull House are services that have a mixture of Government and private funding. As Government funding becomes diminished, we are less able to offer services such as day care, early child education, employment programs, services for adolescent girls who are pregnant and who have young children.

Our commitment to social justice and to fairness can be realized only as we attempt to resolve problems, and the withdrawal of financial support is a withdrawal of that commitment.

In contrast, it is particularly distressing to see the total commitment to financial support for defense even in the face of procurement procedures that don't work, weapons that don't work, systems that are topheavy and extravagant and an arsenal of nuclear weapons capable of destroying the whole world many times over.

Hull House as an agency will be seriously diminished through reduction in human service programs. Even worse, the neighborhoods, the city, all of us will suffer for many years to come. Thank you.

[The prepared statement of Ms. Sharpe follows:]

Prepared Statement of Pat Sharpe

My name is Pat Sharpe and I am executive director of Hull House Association. Hull House opened its doors in 1889, and ever since has continued its services to the neighborhoods of Chicago. Those services have been defined by need, as formally expressed or as directly observed, and have varied greatly over the years. We have attempted to help individuals with their particular problems, and also to influence and effect changes in the system, when it is evident that individual help is not enough. Hull House continues to be concerned with civic improvement, cultural enrichment and social justice. We have tried to achieve our goals through a variety of services and programs, through a diversity and flexibility that constantly addresses new problems and seeks more effective solutions.

To believe that private philanthropy alone is sufficient to support the activities essential to achieving relief from our numerous social problems is an exercise in wishful thinking. There is a valid and essential role for government, partly economical and partly as an expression of all citizens' concern for their society.

In the President's recent state of the Union address, he talks of a country that is not the one I know and experience here in the city of Chicago. Yes, there are bright spots and good reports, but to ignore the serious situation in the cities, in impoverished areas, in education and employment, is to misrepresent the true state of the Union.

Our response to the budget priorities of the Federal Government is one of outrage, dismay and frustration, because of the constant erosion of support for human services. It has become fashionable to state that social programs don't work, to say that we can't solve social problems by throwing money at them. Well, we are certainly not going to solve them by taking money away from them. Where there are programs that don't work, we need to be able to devise alternatives. The problems don't go away. The problems remain and are serious, complex, threatening to individuals and to society.

What are some of these serious and complex human service problems? Think about an inner city high school, and our youth on whom we like to say the future of the Nation depends. At this high school, the dropout rate could be as high as 65 percent. The young people drop out for a variety of interlocking reasons. The unemployment rate could be as high as 70 percent, so what is the motivation to finish high school? What is the motivation to enter training when there is no perception of a job being available? What is the motivation when even a high school diploma does not assure basic functional literacy?

Hull House was funded for job training and placement and it was a valuable program because we were able to reach the really hard-to-place. We now have very little funding for employment problems, but the problems and the people are still there. If our programs don't work, we certainly should fix them; we should not abandon whole communities of young people.

Think about the problem of teenage pregnancy, babies having babies. It is a complex, serious problem that goes beyond the individual teenage parent and whatever difficulties there are related to immediate caretaking. It is a social problem, connected to the school dropout problems, employment problems, and economic problems. Hull House receives funding for a program to work with some of these teenage parents. We used to receive some funds to work with adolescents before the problem occurred, to try to prevent the problems, but lost that funding. We anticipate that our current funds will be cut or eliminated entirely in this present budget. Is this a program that doesn't work? After 4 years I'm not prepared to say precisely, but I do know the problem is not going to go away, that it won't be solved by individual initiative, and that the implications for the future are dire.

Think about day care, and early childhood education. These are clearly programs that work. Results of research are impressive. But funding is certainly not secure. Hull House provides both day care and preschool programs, in homes and in centers, in inner city neighborhoods. We believe we provide the basis for future learning and literacy. But year by year the funding becomes more precarious, and our ability to continue this service is in jeopardy.

There are many other specific areas that could be mentioned: housing, health care, poverty, crime and violence.

The problems we face in the area labelled human services are severe and complex. Our commitment to social justice and to fairness can be realized only as we attempt to resolve these problems. The withdrawal of financial support by the Federal Government is a withdrawal of commitment to providing a just and humane society.

In contrast, it is particularly distressing to see the total commitment to financial support for defense, even in the face of procurement procedures that don't work, weapons that don't work, systems that are topheavy and extravagant, and an arsenal of nuclear weapons capable of destroying the whole world many times over.

Hull House as an agency will be seriously diminished through reduction in human service programs. Worse, the neighborhoods, the city, all of us, will suffer for many years to come.

Mr. RUSSO [presiding]. Thank you very much. The gentleman from Montana.

Mr. WILLIAMS. How long has Hull House relied, in part, on public funding?

Ms. SHARPE. Many, many years. I would imagine—I can't go into the budget in detail, but I would imagine back in the 1930's during the Depression would be the major influx of Government funds.

Mr. WILLIAMS. How reliant is Hull House now on Federal funding?

Ms. SHARPE. About 60 percent of our budget is through Government funding, and the majority of it is Federal as it comes through the State or through the city.

Mr. WILLIAMS. You mentioned in your statement assumptions that private philanthropy would be insufficient to carry on the activities of Hull House.

Ms. SHARPE. That is correct.

Mr. WILLIAMS. Has private financial help for Hull House risen or decreased in the past 5 or 6 years?

Ms. SHARPE. It has risen slightly.

Mr. WILLIAMS. Has private financing shown a gradual increase throughout the years or have there been times when it has slowed or dropped away?

Ms. SHARPE. Well, it has been, for the most part, a gradual increase. I would say in the last 5 years that increase has flattened out. There is still a slight increase, but it is not anything one would expect with the change in the economy.

Mr. WILLIAMS. Thank you.

Mr. RUSSO. Let me just follow up on that.

If it was that slight increase without an increase in Federal funds, it would not be sufficient to make up the difference if the Federal funds are cut in the way they are requested to be cut in this budget.

Ms. SHARPE. That is correct.

Mr. RUSSO. Would you fall way short of the mark in trying to take care of the people you are trying to take care of?

Ms. SHARPE. That is correct. I would say the Head Start Program, as a particular example, is a large program. Research shows that effects of early child education are positive and significant. There is no way that I could see private funding supporting that extensive early child education for low-income people.

Mr. RUSSO. Thank you.

Mr. EVANS. You mentioned the President's State of the Union Message. All of us sat through that last week, and I think we would be in agreement that the strength of this country lives in its families and communities, but I guess what you are saying to us is his budget that was submitted the next day really is undermining the strength and vitality of those two particular institutions. So, we appreciate your testimony.

We see those kinds of implications in the President's budget and will be looking very skeptically at them. Thank you.

Mr. RUSSO. Thank you very much, Ms. Sharpe.

Our next witness is Nancy Johnstone. Nancy is the executive director of the Youth Guidance. You are going to discuss gang problems, as I understand.

STATEMENT OF NANCY J. JOHNSTONE, EXECUTIVE DIRECTOR, YOUTH GUIDANCE

Ms. JOHNSTONE. I want to thank the members of the House Budget Committee for inviting me to appear before you.

I am the executive director of Youth Guidance, a private, nonprofit social service agency providing counseling and creative arts services to troubled adolescents in Chicago—youth who are not making it in any area of their lives and are at risk of becoming involved, or further involved, in the juvenile justice, mental health and welfare systems.

I also wear another hat. I am a member of the city's community development advisory committee, and for the past 5 years I have cochaired the public services subcommittee which oversees community expenditures for social services.

My focus today is on youth, and if this testimony had a title, it would be, "Federal Youth Policies: Penny Wise and Pound Foolish."

Most people give lipservice to the notion that youth are our Nation's most precious resource, and current population projections tell us that it is becoming a scarce resource.

Between 1980 and 1990, the total number of young people ages 14 to 24 will shrink from 45.3 to 37.9 million, or a drop from 20.3 to 15.6 percent of the total population.

Some experts suggest that what we face by the end of this century is not a shortage of jobs, but rather not enough qualified people to fill the jobs of the future.

Even if every job is filled, there will be fewer younger workers to support a rapidly increasing elderly population.

Given this scenario, logic would suggest that every effort, public and private, would be mobilized to insure that every last one of today's young people will become productive, contributing adults. Unfortunately, public policy, as reflected in Gramm-Rudman and President Reagan's proposed budget, flies in the face of this simple logic.

Over the past months, and by the end of today you will have heard ample testimony laced with statistical projections regarding the broad impact on Chicago of both Gramm-Rudman and the Reagan budget.

I would like to use the brief time I have to put some faces and programs behind these statistics. Although as a social worker my values are generally driven by humane considerations, today I want to emphasize the absurdity of current policies from a straight cost-effective perspective.

Who is kidding whom when we describe reductions in the community development and community service block grants, juvenile justice, and youth employment funds as cost cutting?

Let me tell you about some of the young people who enter these programs. They are convinced that there is no future for them. They have been left alone to fend for themselves, to become their own parents, in an environment that offers no positive role models and no hope that anything can ever change for them.

In their desperate search for structure, values, and caring, they cope the best way they can, by dropping out of school and by turning to gangs, drugs, pregnancy, violence, and suicide.

Their role models are the drug dealers with the fancy cars, and they derive their values from television shows such as the minimalistic, flashy violent "Miami Vice."

A 14-year-old in our program described this despair in a poem about a young boy "being used and abused, ending up dead on a street corner because of nickel and dime dreams that turned out to be nightmares."

Helping these youth to redirect their considerable strengths and energies into more constructive channels is a complex and challenging task.

In Chicago, as the mayor pointed out, the city addresses the problem by promoting partnerships between the public and private sectors, relying heavily on community based agencies to do the direct services. These partnerships are remarkably cost effective, as they leverage private dollars and they generate community participation and in-kind contributions of all sorts. In Chicago, public dollars go a long way.

As Mayor Washington reported in a news release on January 21, the city's antigang initiative, called the Chicago intervention network—I won't go into any detail about that program but to tell you it is a model of this kind of partnership.

What he didn't mention is that this very effective program is currently costing $350 per youth served. Compare this to the cost of incarceration in a youth correctional facility, currently running about $20,000 a year in Illinois.

Now I would like to tell you briefly about some of the federally funded programs at Youth Guidance that exemplify the creativity, cost effectiveness, and partnership aspects of Chicago's social service system, programs that will be drastically reduced or eliminated if the President's budget is approved.

One of our target schools, Roberto Clemente High School, has a dropout rate of 70 percent and is located in a community that has one of the highest gang homicide rates in the country.

Last summer we initiated a graffiti art project. For most kids graffiti is a way to gain recognition, have an identity, and feel important, with a little jab at adult authority sprinkled in.

We put together a combination art and counseling program whose goal was to redirect the talents of these youth into sanctioned activities which will give them some of the same satisfactions as their illegal pursuits.

This project epitomized the partnership concept. Funds came from the community development block grant, the Summer Youth Employent Program, and the United Way of Chicago. The school provided classroom space. Artists and counselors working together provided a rigorous, disciplined program where students had the satisfaction of producing useable products. They painted large murals on moveable boards, which the school utilizes for various activities, and the T-shirts they designed were sold by one of our large department stores, Carson, Pirie and Scott.

I brought this for you to see, because it is quite an improvement over gang slogans in subway cars.

Almost all of these youth were peripheral gang members or at risk of joining. If they were here they would tell you, as they have told us, that being a graffiti artist is an effective way to stay out of the gangs and their violent activities. I was absolutely convinced of the value of this program when a community resident called and asked our graffiti artists to paint a mural on her garage!

At another school on the northwest side where gang activity is just emerging as a serious problem, we are doing a project funded through the Chicago Intervention Network. In an upper grade center we are working with two groups of boys who are already in or about to join gangs. They are producing video vignettes on gang activity which are then shown in each classroom to stimulate discussion. The goal is to create an antigang culture in the school.

By the end of the school year this program will have served 40 students directly and will have benefitted the total school of 200 at a cost of $12,000.

These are typical of the federally funded programs operating throughout Chicago. There are so many more, like the alternative schools that pick up dropouts who will never make it in the public school system and the agency that provides training and job placement for exoffenders. Many of those are also gang members.

These two programs, as well as the city's day care centers, are funded through a match arrangement, where 1 community development dollar is matched with 3 from title XX. These are not programs that encourage dependency, but rather they get young people on their feet and back in the mainstream, which, believe it or not, is where most kids want to be.

As elected officials, you and others have the awesome responsibility of deciding what we are going to cut in order to place this country on a sound fiscal course, something we all want.

I urge you and others to look carefully and honestly at the money we are spending on the defense and space programs and to honestly assess what the real threat to this country would be if their growth were curtailed.

America's future will soon be in the hands of today's youth, and I believe that spending money now to insure the viability of our future leaders and citizens is far more critical than building more and more deadly weapons and developing a manned space station.

We have some choices. We can support today modestly funded programs that will enable our youth to become autonomous, contributing adults, or we can pay out much larger sums later to build more prisons and mental hospitals, increase police protection, and expand welfare programs.

We can keep young people in school and put them to work or we can lose, for example, as it is projected over a lifetime, $328 million in taxes and $1.8 billion in earnings from the Chicago class of 1982 dropouts. That is one graduating class in Chicago. Think about what the national figures would look like. We can pay now or pay later, but pay we will, and the choice is ours to make. Thank you very much.

[Testimony resumes on p. 81.]

[The prepared statement of Ms. Johnstone follows:]

PREPARED STATEMENT OF NANCY J. JOHNSTONE

I want to thank members of the House Budget Committee for inviting me to appear before you. I am the Executive Director of Youth Guidance, a private, non-profit social service agency providing counseling and creative arts services to troubled adolescents in Chicago - youth who are not making it in any area of their lives and are at risk of becoming involved, or further involved, in the juvenile justice, mental health and welfare systems. Work is conducted through full-time outposts in several of Chicago's most dysfunctional high schools and upper-grade centers. I am also a member of the City's Community Development Advisory Committee, and for the past five years I have co-chaired the Public Services Subcommittee which oversees Community Development expenditures for social services.

My focus today is on youth, and if this testimony had a title it would be, "Federal Youth Policies: Penny Wise and Pound Foolish." Most people give lip service to the notion that youth are our nation's most precious resource, and current population projections tell us that it is becoming a scarce resource. Between 1980 - 1990, the total number of young people ages 14 - 24 will shrink from 45.3 million to 37.9 million, or a drop from 20.3% to 15.6% of the total population. Some experts suggest that what we face by the end of this century is not a shortage of jobs, but rather not enough qualified people to fill the jobs of the future. Even if every job is filled, there will be fewer younger workers to support a rapidly increasing elderly population.

Given this scenario, logic would suggest that every effort, public and private, would be mobilized to insure that every last one of today's young people will become productive, contributing adults. Unfortunately, public policy, as reflected in Gramm-Rudman and President Reagan's proposed budget, flies in the face of this simple logic.

Over the past months and by the end of today you will have heard ample testimony, laced with statistical projections, regarding the broad impact on Chicago of Gramm-Rudman and the Reagan budget. I would like to use the brief time I have to put some faces and programs behind these statistics. Although as a social worker my values are generally driven by humane considerations, today I want to emphasize the absurdity of current policies from a straight cost-effective perspective. Who is kidding whom when we describe reductions in the Community Development and Community Service Block Grants, Juvenile Justice and Youth Employment funds as cost cutting?

Let me tell you about some of the young people who enter these programs. They are convinced that there is no future for them. They have been left alone to fend for themselves, to become their own parents, in an environment that offers no positive role models and no hope that anything can ever change for them. In their desperate search for structure, values and caring, they cope the best way they can, by dropping out of school and by turning to gangs, drugs, pregnancy, violence and suicide. Their role models are the drug dealers with the fancy cars, and they derive their values from television shows such as the minimalistic, flashy, violent "Miami Vice." A fourteen year old in our program described this despair in a poem about a young boy, "being used and abused, ending up dead on a street corner because of nickle and dime dreams that turned out to be nightmares."

Helping these youth to redirect their considerable strengths and energies into more constructive channels is a complex and challenging task. In Chicago the City addresses the problem by promoting partnerships between the public and private sectors, relying heavily on community based agencies to do the direct services. These partnerships are remarkably cost-effective, as they leverage private dollars,and they generate community participation and in-kind contributions of all sorts. In Chicago, public dollars go a long way.

As Mayor Washington reported in a news release on January 21, the City's anti-gang initiative, called the Chicago Intervention Network, has demonstrated a high level of success in its first six months of operation; for example, a 19.4% drop in gang homocides and a 20.7% drop in gang related robberies. It is a prime example of the partnership in action. The total cost in 1985 was 4.2 million dollars, and of that, 2.6 million was drawn from Federal funds. With these dollars, 116 community agencies have been funded for gang programs, over 46,000 citizens have been involved as volunteers, and 12,000 youth and family members have been served - at a cost of $350.00 per person! Compare this to the cost of incarceration in a youth correctional facility, currently running about $20,000 per year in Illinois.

Now I'd like to tell you briefly about some of the Federally funded programs at Youth Guidance that exemplify the creativity, cost-effectiveness and partnership aspects of Chicago's social service system, programs that will be drastically reduced or eliminated if the President's budget is approved.

One of our target schools, Roberto Clemente High School, has a dropout rate of 70% and is located in a community that has one of the highest gang homocide rates in the country. Last summer we initiated a graffiti art project. For most kids graffiti is a way to gain recognition, have an identity, and feel important, with a little jab at adult authority sprinkled in. We put together a combination art and counseling program whose goal was to redirect the talents of these youth into sanctioned activities which will give them some of the same satisfactions as their illegal pursuits. This project epitomized the partnership concept. Funds came from the Community Development Block Grant, the Summer Youth Employment Program, and the United Way of Chicago. The school provided classroom space. Artists and counselors working together provided a rigorous, disciplined program, where students had the satisfaction of producing useable products. They painted large murals on moveable boards, which the school utilizes for various activities, and the t-shirts they designed were sold by one of our large department stores, Carson, Pirie and Scott. Almost all of these youth were peripheral gang members or at risk of joining. If they were here they would tell you, as they have told us, that being a graffiti artist is an effective way to stay out of the gangs and their violent activities. I was absolutely convinced of the value of this program when a community resident called and asked our graffiti artists to paint a mural on her garage!

At another school on the Northwest side where gang activity is just emerging as a serious problem, we are doing a project funded through the Chicago Intervention Network. In an upper grade center we are working with two groups of boys who are already in or about to join gangs. They are producing video vignettes on gang activity which are then shown in each classroom to stimulate discussion. The goal is to create an anti-gang culture in the school. By the end of the school year this program will have served 40 students directly and will have benefitted the total school of 200 at a cost of $12,000.

At Cabrini-Green, where killings are a routine part of life, Federal funds are being used to turn-around serious juvenile offenders. Our counselors serve as detectives, parents and friends. They fan through this dangerous housing project tracking down the youngsters who are often not in school. They bring them back, remove the earrings and other gang symbols, help them to dress appropriately, they intervene in a drug exchange, and they visit their homes where they encourage family members to assist them on behalf of the child. In their interactions with these youth they continually emphasize their importance as human beings, encourage them to think about their purpose in life, where they want to be someday, and they confront them with the realities of what they are currently doing. One of my workers said to me recently, "they join the gang because of peer pressure; they know they are in the fire and they want out, but they need an arm extended to reinforce and protect. We provide that arm." This program is having an impact. Some of these tough kids are leaving the gangs, and community residents are beginning to come forward to help. It is costing us $465 a year to serve one youth. Compare this to the cost of one who didn't make it and drew a 34 year sentence for being an accessory to a gang murder.

These are typical of the Federally funded programs operating throughout Chicago. There are so many more, like the alternative schools that pick up dropouts who will never make it in the public school system and the agency that provides training and job placement for ex-offenders. These two programs, as well as the City's day care centers, are funded through a match arrangement, where one Community Development dollar is matched with three from Title XX. These are not programs that encourage dependency, but rather they get young people on their feet and back in the mainstream, which, believe it or not, is where most kids want to be.

As elected officials you have the awesome responsibility of deciding what we are going to cut in order to place this country on a sound fiscal course, something we all want. I urge you to look carefully and honestly at the money we are spending on the defense and space programs and to assess what the real threat to this country would be if their growth were curtailed. America's future will soon be in the hands of today's youth, and I believe that spending money now to insure the viability of our future leaders and citizens is far more critical than building more and more deadly weapons and developing a manned space station.

We have some choices. We can support today modestly funded programs that will enable our youth to become autonomous, contributing adults, or we can pay out much larger sums later to build more prisons and mental hospitals, increase police protection, and expand welfare programs. We can keep young people in school and put them to work or we can lose, for example, as it is projected over a lifetime, 328 million dollars in taxes and 1.8 billion in earnings from the Chicago class of 1982 dropouts.

We can pay now or pay later, but pay we will, and the choice is ours to make.

Mr. Russo. Thank you very much. It is an interesting perspective.

Let me give you another little fact. It would cost us in tax dollars $1 trillion if you can imagine that, to put Star Wars together, and almost every expert except those who are working on it, says it is not needed.

So, again I think the priorities of this country are misdirected as to what we are going to be protecting if we don't do anything for our infrastructure, our cities and our people.

We won't have a need for Star Wars. We will already be in trouble, and there won't be anything to protect.

Ms. Johnstone. We may need to use our defense budget in our own cities.

Mr. Russo. You are right. Mr. Williams.

Mr. Williams. Ms. Johnstone, what part does illiteracy, that is functional illiteracy, take in juvenile crime?

Ms. Johnstone. I was thinking as I was listening to Marian Wright Edelman's testimony, and I was going to suggest that the children she talks about, some of them survive and become adolescents, and they are probably the 200,000 that the mayor described as unemployed.

They are the same number who drop out of school. They are frequently illiterate, frequently because of health problems and a very, very poor early start.

So, I think illiteracy is a major problem. I know it is the responsibility of the school system to do something about it, but it starts much earlier than that, and Ms. Edelman's testimony is one of the answers as to why. It is a serious problem.

Mr. Williams. Are jobs programs for youth effective, in particular with regard to summer programs, in reducing juvenile crime in this city?

Ms. Johnstone. I don't have the precise statistics on that. I know that gang crime has been reduced in this city over the past 6 months and part of that is related to the antigang, the Chicago intervention network program.

Certainly, in our experience, serving youth, many, of the problems that youth present would be resolved if they had jobs.

Many youth drop out of school because they must work. If they had even part-time jobs they could stay in school, so I do think the two are directly related.

I don't have the statistics in terms of whether the Summer Youth Employment Program has an impact on juvenile crime. I am certain it does.

Mr. Williams. Is juvenile crime increasing or decreasing during the past decade in Chicago?

Ms. Johnstone. It is hard to say. The actual number of juveniles who have been put into facilities has increased, and the number of delinquency findings has increased.

I am not sure of the rates. I think the rates of delinquency are actually going down. We have a very tough State's attorney, and there is a great deal of concern about serious juvenile crime.

So, I think there are more findings. Our facilities are fuller than they were.

Mr. Williams. Thank you.

Mr. Russo. Congressman Savage.

Mr. Savage. Thank you, Mr. Chairman.

Ms. Johnstone, may I ask what, in your estimation—I know this is a guess that I am asking for—if none of the cuts in programs about which you expressed concern, if none of the cuts that have been made in the past 5 years, how different do you estimate the present situation would be, the situation regarding the problems that are of special concern to you if none of the cuts had been made?

Ms. Johnstone. For these kinds of programs?

Mr. Savage. Precisely.

Ms. Johnstone. I am one of the people who believe these funds have provided programs that work, so I think that what had started here in Chicago anyway was tremendous progress in terms of partnerships that leveraged private dollars and gained the cooperation of major corporations in this city.

I think that a lot of these programs are working and that we would see many more young people working today and on their way to more productive adulthood.

I can't be more specific than that, but I see around me, both in the jobs programs, the social service programs, many programs that are working and where kids are being encouraged to leave gangs and to pursue more productive routes for themselves.

And I think we would see more of this, and I think you would see even more private dollars leveraged in a city like this that is accustomed to partnerships than is going to be the case if these funds are cut.

Mr. Savage. What I am really getting at, and let me remind you my voting record will indicate I have opposed every one of the cuts, but what I am getting at which is of concern to me is even without the cuts, what about the problem of the nature of our economy which can produce more than we can consume with fewer people that need jobs, meaning that are some of these programs really pretty much Band-Aid programs rather than programs—Band Aids for the victims rather than disease curing, along with the power structure from which, perhaps, the disease might flow?

That is, in our economy even before the past 5 years there were fewer jobs than there were people who needed them.

Ms. Johnstone. I think the downturn in our economy and the change from the kinds of jobs has been a real factor.

I also believe, however, that the kinds of programs that I am talking about today and that I see around me are not Band Aid programs but programs that lead to independence.

I do think, although I do not know whose projections are correct, there will be jobs opening in the future, particularly in the communications and service fields and that there will, perhaps, not be enough qualified people to work in these jobs.

I think that is a problem that we are going to face, and that is why I think making sure that all of the youth we see around us today are qualified to become productive adults is very important.

So, I do think the economy has a tremendous impact, but I think these programs are more than Band Aids.

Mr. Savage. What I mean is are you aware that the racial gap in family income has been decreasing for almost 15 years, not just the past 5 years, that is prior to the cuts during the Reagan administration, the racial gap, the difference in the median family income of black families and that of white families has been decreasing all the time?

Ms. JOHNSTONE. Yes, I am aware of that.

Mr. SAVAGE. Thank you.

Mr. RUSSO. The gentleman from Illinois.

Again, let me thank you, Ms. Johnstone. We also hear in Washington about the wasteful spending side of the domestic budget. It is always nice to know there are people like you in this country who give up a lot of their time in an effort to make Federal programs really work and who help in different situations and sometimes in the impossible ones.

I spent 1½ years as a State's attorney in juvenile court, and I understand the problems of the young people.

As far as I am concerned, if we ever prescibe preventative medicine in any area, that is the area for it. It would save a lot of money down the line in terms of productive individuals who would have a light at the end of the tunnel rather than the problems they face today.

Thank you very much.

Ms. JOHNSTONE. Thank you so much.

Mr. RUSSO. Our next witness is Gerald Prete, president of the Illinois State Council of Senior Citizens.

STATEMENT OF GERALD J. PRETE, PRESIDENT, ILLINOIS STATE COUNCIL OF SENIOR CITIZENS

Mr. PRETE. My name is Gerald J. Prete. I am president of the Illinois State Council of Senior Citizens. The Illinois State Council is an affiliate of the National Council of Senior Citizens which represent 4.5 million of America's older people.

Here in Illinois, in Washington, DC, and across the country, seniors and their advocates are deeply concerned about the direction the President would take us through his budget policies. We appreciate the opportunity to discuss our concerns with you today.

One of our big concerns has been brought out by Marian Edelman, is the youth of America. Today's media seems to portray older people as only concerned about their own self-interest. That is not true.

Most of us have grandchildren, I have 14. I want them to receive the kind of education they should have, to make their way in society. I want other people, other children, no matter what part of society they are, to have the same benefits that we had, to educate themselves and to prosper in this country. We support educational assistance for the youth of America. This education of our youth is protecting and encouraging this human resource for the future potential development of our country.

Now, that doesn't mean we are not patriotic, when we say protect education, protect Social Security or protect Medicare, protect health care, protect community health care, for instance.

Many of us today come from families where our fathers fought in World War I and we fought in World War II and we have sons and daughters that were in Korea and Vietnam.

Community Health Care is a cost-effective program and should be retained.

Why are we saying this? If you take a person who is at home, as my mother was at 82 years old, who had lived independently for 80 years until a stroke partially disabled her. We, Community Health Care and our family took care of her until her death. There is a real possibility that if Community Health Care was not available my mother would have had to go to a nursing home. The cost effectiveness of the Community Health Care Program is proven. Two years of service for approximately $2,000 against a nursing home cost of $24,000 plus. To make a point, right now, the Gramm-Rudman trigger for 1986 went in, and $53 million were lost in the Federal Bureau of Investigation budget. They are scouring around now how to offset that loss. This is not in my written testimony.

If you went to every senior citizen in this country and you said to them, should we cut the budget for the FBI, you know the answer to that as well as I do.

There is not one of them—many of them would say absolutely not. It is the institution that is right now fighting organized crime most effectively.

We want that budget to continue. We want to spend that money for that department. Raise taxes or cut the military who are wasting money. When we talk about Medicare, the part B premiums and the cost of deductibles, the increase in the premiums, today and with the new cuts in the budget and the increase in the deductibles, we are going to have people paying a greater percent of their income for Medicare than they did when we first started Medicare in 1965.

It will get to a point, if we continue to do this, low and moderate income senior citizens will not be able to afford Medicare because the premiums will get so high they will say, I will do without because I have to eat; I have to have shelter. We have got to stop this kind of meat axe action approach to the budget.

For instance, let me tell you the story of the President and David Stockman's cut in the minimum security payment. Most of the senior citizens in this country were not affected by that. It affected only 3 million people. The senior citizens of this country joined together, and they brought to Congress the true facts of that cut, and Congress rescinded that before it became effective.

Now, that is the way we are asking the Congress to approach the balanced budget program. Gramm-Rudman is not the answer, and the President's budget is obviously not the answer.

We have elected Senators and Congressmen to look at the priorities of this Nation, as your constituency who writes you, who asks you about things. And then I want you to look at those priorities and say, how do I reflect my constituencies' interest? What is best for the people of America?

We need a high sense of responsibility, a great depth of moral courage and real wisdom. Both of those are going to be needed in the future of our country.

I am kind of preachy today, aren't I, but let me tell you one thing. We have all heard the stories about the corporations. I don't want to go into it. But all of the student financial assistance budget that is going to be submitted to the Gramm-Rudman trigger next year could have been paid for if just one corporation, General Electric, had paid its minimum tax of 25 percent on more than $9 billion in the past 4 years.

Now, I am not pleading a case just for seniors. I am saying that you, the Senators and Congressmen, take charge of the priorities of our budget, that is what this Nation is asking you for. That is what we senior citizens are asking you to do, to be realists and to look at the effect, the long-range effect on this country.

I am working with another organization, the Catholic Charities of Chicago. We are engaged in developing housing in Englewood and West Englewood. We have taken some old schools and we are revitalizing them.

If you had cut the community development block grants last year, we could not do it. We have not the ability to raise the funds to take $4 million out of donations and go out there and develop those schools for 100 units of senior housing. Why do we need to provide housing for senior citizens?

Because just the other day a 79-year-old woman called and told me she is going to get a raise of 15 percent in her rent. She says, if I get that raise, my total Social Security check is going for my rent. I won't have anything left for food.

Now, how do you answer people like that? That is the kind of people in need we are talking about. When you cut community development block grants, we can't help people like that. We have got to go in there and do something for them. We can and we will if we have this partnership between the Government and nonprofit organizations.

The Illinois State Council recognizes that. If Du Pont had paid a 25 percent minimum tax on its profits, all of the job training cuts that would come in 1987 would be satisfied, and job training would continue. When you sit there in Congress you need to take a good look at the priorities that you are going to assign to cuts for social services, title XX, and community development block grants, and determine do we need a machinegun that does not work? Do we need a tank that a little dust will stop it? What do the people of the United States need?

Well, if I had to make the choice myself, I would say no to cuts in people programs.

I think one thing—this is my own private opinion—if Congress would pass a rule or a law stating that no military officer could ever work for a defense supplier, I think we would reverse what we have seen today in this military industrial complex.

The buddy system is working very well. Generals who have to procure supplies and equipment can do it, because their friends are looking at them across the way. Thank you very much. I am open to questions.

[Testimony resumes on p. 94.]

[The prepared statement of Mr. Prete follows:]

PREPARED STATEMENT OF GERALD J. PRETE

Mr. Chairman, my name is Gerald Prete. I am President of the Illinois State Council of Senior Citizens. The Illinois State Council is an affiliate of the National Council of Senior Citizens which represents over 4.5 million of America's older people. Here in Illinois, in Washington, D.C., and across the country, seniors and their advocates are deeply concerned about the direction the President would take us through his budget policies. We appreciate the opportunity to discuss our concerns with you today.

Our concerns are not limited to specific programs--though we certainly have enough to worry about as we look at proposals for Medicare, Medicaid, the housing, the VA, Legal Services and others. We are very worried about the immediate and long-term effects the President's plans will have on all generations--on families with young children who need help to receive decent nutrition, education, and health care; on workers struggling to find or keep their jobs; and on elderly trying their best not to burden their children.

As a fiscal blueprint, the Federal Budget should reflect the nation's policy priorities. Does the FY 1987 truly speak for the nation, or is it merely a vehicle for the Reagan

Administration to meet its military growth and government cutback priorities at the people's expense? This is a question we think Congress should ask as members examine the President's plan. We also urge you to ask not "where to cut" but "why" to cut domestic programs in view of the many fiscally and socially responsible alternatives which are available to reduce the deficit.

Do the American people really want Congress again to shift the nation's resources from its people to the military? Do we really want Congress to sanction a continued drain on the Federal Treasury through wealthy corporations' tax loopholes and special preferences?

Should Congress continue to cut back on domestic programs to fund the military, using the Federal deficit as an excuse? The President is asking Congress to do so. In FY 1987 alone he wants the domestic budget cut by $23 billion and the defense budget expanded by $33 billion. We are asking Congress to reject this unfair request.

We have had a chance to look at the President's plans for Medicare, Medicaid, Federal Housing Assistance, and legal services among the myriad of domestic programs attacked by FY 1987 cuts. I will briefly comment on the potential effects of these plans on senior citizens.

Medicare - The President has requested that the aged and disabled fund nearly half of his $55.8 billion in Medicare cuts. Three major Medicare proposals alone would cost beneficiaries $20 billion in five years by requiring higher out-of-pocket payments before Medicare benefits begin.

Under the President's plans, the Part B premium would be raised. By 1991, the premium would be 77 percent higher than if current law were not changed. Without the increase the President wants, the premium, now $15.50 per month ($186 per year), would be about $18.70 per month in 1987 ($224 per year). By 1991, under the proposal, it would be approximately $37 per month instead of the anticipated $20.70 ($440 per year instead of $248). To accomplish this shift of $17 billion in premium costs to the elderly and disabled, the President would require the beneficiaries to pay some of the government's costs. Today the premium covers 25 percent of the Part B outlays and the government pays 75 percent. The proposal would change the ratio to 35 percent and 65 percent respectively, shifting additional expenses to us.

The Part B annual deductible would be raised by 33 percent on January 1, 1987. Now fixed at $75 per year, it is the amount out-of-pocket that we must pay before Medicare begins reimbursing for physician and out-patient services. (This is only one of two deductibles; under Part A, the hospital deductible is $492 per benefit period.) The plan would raise the deductible by about five percent annually after 1987. In five years the President's plan will cost seniors $3 billion.

The President plans to cut home health care benefits by instituting a co-payment which would cost seniors nearly $700 million. Today no co-payment is required if a senior needs home health skilled care. Under the plan there would be a charge of about $5.00 per visit starting in 1987. It would be applied to individuals who have not first been in a hospital or a nursing home.

The home health plan is more than a benefit cut and an added expense. It is also a step which is contrary to effective cost-containment policy. Reducing the use of institutional care and providing out-patient service, including surgery, should be a part of this policy. Instituting a co-payment for home health care penalizes the patient and also provides a disincentive for the use of non-hospital medical care.

Together these three proposals would cost seniors and disabled people about $20 billion over five years. Doesn't the President know how much we pay for health care already? Doesn't he know that today's average price of $1,660 to pay for what Medicare does not is already high enough? We ask Congress to recognize these costs as an outrageous price for seniors to pay for the President's intransigence on his military buildup and refusal to include increased tax revenue in his budget plans.

Many other programs on which older people depend will be subject to severe cuts:

Housing - The President wants to end all Federal assistance for new housing construction to poor Americans even though these programs have been reduced 68 percent since 1981. Section 202 housing for the elderly and handicapped is included in the FY 1987 cut. Elders living in Section 8 housing today would pay higher rents. The President has asked Congress to require elderly persons to find their own housing with Federal "vouchers." A total of 50,000 vouchers would be provided annually. The cuts in Federal outlays for housing will be $29.1 billion by 1991, but cuts in budget authority would total $76 billion through FY 1991. This latter cut would completely terminate new housing starts, and rescind funds for projects which would have begun in this fiscal year.

Medicaid - The major source of long-term care financing for low-income elders, Medicaid, will be cut $17.2 billion in five years. The states' funding will be cut by $1 billion and annual increases will be limited to medical inflation. These caps will occur regardless of the increased need for long-term care or any increases in needs of the population. The last four years have shown us that "increased states' responsibility and flexibilty" with simultaneous budget cuts have led to limits on Medicaid eligibility and benefits. The Medicare Part B premium and deductible increases will also add to states' expenses when they "buy in" Part B for low-income elderly.

Social Security - Despite claims that Social Security would remain untouched, the President would reduce administrative funds for Social Security, cutting staff by 3,000 in 1987 with a 21 percent reduction by 1990. Social Security regional office staff not only help elderly with cash benefits questions, they also provide valuable Medicare information. As Medicare coverage becomes more complicated by freezes and prospective payment, and information such as physician assignment rate listings is required, seniors need access to knowledgeable, willing, and available office personnel. Cutbacks will hinder this process.

The President would totally eliminate some programs:

Legal Services - provides free legal assistance to low-income persons. Of 1.3 million cases handled by Legal Services attorneys in 1984, over 175,000 involved an elderly person. In FY 1986, LSC funding is set at $305.5 million.

Community Services Block Grant - provides funds for community services for the poor including emergency food distribution and energy assistance. Funding in FY '86 is set at $370.3 million.

Congregate Services - provides meals and essential social services to residents of Section 202 housing for the handicapped and elderly. Spending for FY '86 is $2.7 million.

Weatherization - helps poor families weatherize their homes to make them more energy-efficient, thereby reducing future energy bills. Each year over 200,000 homes are weatherized—— 30-40 percent of which are owned by elderly persons. FY 1986 spending would be $191 million.

The President would freeze funding for many programs. Although inflation estimates are projected between three to four percent and the older population is growing faster than any other age group (especially the vulnerable, over-75 group), the following programs would be FROZEN, WITH SPENDING AT FY '86 LEVELS. It should also be noted that these programs will have their FY 1986 budgets reduced on March 1, 1986 by 4.3 percent, due to the first Gramm-Rudman automatic budget cut.

Older Americans Act, Nutrition and Social Services- provides congregate and home-delivered meals, senior centers and supportive services such as in-home care, transportation, legal assistance and nursing home ombudsman services. FY '86 spending would be $667 million.

Senior Community Service Employment - provides part-time community service jobs to more than 60,000 low-income senior citizens. The FY '86 budget level is $326 million.

Low-Income Home Energy Assistance Program - helps low-income families pay their energy bills and provides crisis assistance to prevent utility cutoffs. Senior citizens are a priority group for service under this program. Each year about seven million households receive energy assistance, about 30-40 percent of which are elderly. In FY '86, $2.1 billion has been allocated for this program.

Social Services Block Grant - provides funds to states for a variety of social services for children, families and the elderly. Of particular importance to the elderly are adult day care, supportive health and in-home services. Although funds would be frozen, the Administration contends that this block grant can provide services currently funded by the Community Services Block Grant and Legal Services——both of which would be eliminated. The Social Services Block Grant is funded at $2.7 billion in FY '86.

Mr. Chairman, President Reagan's budget document announces that he is not "cutting into legitimate programs for the poor and the elderly." I hope the Budget Committee will examine it more closely than its creators evidently reviewed it.

Mr. **Russo**. Let me just followup briefly on some of the things you said.

I served as the chairman of the Task Force on Minimum Tax for the Ways and Means Committee. We have put in a tough minimum tax of 25 percent in the current tax reform measure.

So, Du Pont's GES General Dynamics will pay at least some part of its profits in taxes.

Mr. **Prete**. Thank you very much. We say that very humbly.

Mr. **Russo**. Let me just tell you that the House of Representatives last year had a long struggle over the defense authorization bill. We put four of the major procurement reforms into the authorization bill only to have the House conferees give up on it.

Due to the efforts of some individuals sitting on this platform here today, we blocked the vote in the House on the conference on the authorization bill until we were assured by the Speaker that all four procurement reforms would be given a chance by the Appropriations Committee.

All four were put in the Appropriations Committee. Unfortunately, the other body, the Senate, struck all four of them again, and we were unable to save them except a very minor thing called allowable cost. But we did have revolving door reform. We did have accountability by the Defense Department to the Congress on the kind of things they allow contractors to put into their cost of an item.

As John Dingell told me the other day, the toilet seat everybody was complaining about has dropped from $700 now to $500. The magic throne everybody sits on to go to the bathroom now costs $1,000. You and I can build it for $30, but the military needs $1,000.

As I look at this panel here, I can tell you that you don't have a problem with this panel. You have a problem with Senators and their Members of Congress.

Mr. **Prete**. I know. I knew it would get some press on it.

Mr. **Russo**. I understand. You are very effective, too, by the way.

Mr. **Prete**. Personally, my own feelings, the Congress that is presently sitting was one of the hardest working Congresspeople that have ever been sent to Congress.

They have tried to do something for the people. The Senate I have a lot of problems with, and I had a lot of problems with the Senate conference.

If you were on the conference committee you know the Illinois State Council and our people sent you a lot of letters saying, don't budge, don't move. But unfortunately, we know compromise is the art of our Government.

Mr. **Russo**. We did it very reluctantly. A lot of us didn't vote for it, as you can see from our voting records.

The gentleman from Montana.

Mr. **Williams**. Mr. Prete, I have the sense that, in general, senior citizens across this country really have no understanding that either this budget, or the last four budgets from the President, tried to slash senior citizen housing, health care and nutritional programs, energy assistance, and that, in fact, since he has been President, Ronald Reagan has tried on three different occasions to cut Social Security benefits.

When I ask senior citizens in Montana if they know that, the answer is, no, they don't know it. Do they know it in Illinois?

Mr. Prete. You had better believe it. Congressman Russo, Congressman Rostenkowski, Congressman Collins, I have written you several letters. I haven't written Congressman Savage, but we have written letters and we have come to Washington.

When that big rally was on the steps of the Capitol, 1,000 senior citizens from Illinois paid their way to come there and protest the cuts in the minimum security payment.

We have been there before. The last constitutional convention we had in Washington last year, we were in the Halls of Congress. We saw our Congressmen, those we could find. Some of them, you know, we can't find when we get there. Some we can.

Mr. Russo. We are having that same problem today, too.

Mr. Prete. I know that. I commend you, and I am so grateful you came to Chicago. You heard a great mayor say some great things about needs, and I hope we address those.

Mr. Collins. I have no questions, Mr. Chairman. Thank you.

Mr. Russo. Any questions of the panel? The gentleman from Wisconsin.

Mr. Moody. Thank you. Do you have any comments on what we might do with Social Security in the future? For example, should the tax threshold be lowered so we can recover some of that fund on a needs basis throughout the Tax Code? Do you have a point of view on that?

Mr. Prete. We have been wrestling with that. We have talked about that in our legislative meetings. One of the things I think you have to do is, of course—I know a lot of people aren't going to agree with this—I am going on 67 years old myself. I am still working. I think we need to raise the age probably. I know that is difficult to do. We have a lot of people who say, no, 65 is it.

I think you ought to do something with the military retirement. Nobody should retire after 20 years of work. They are still productive, and I know that the military is going to scream about that. That is one way.

Another thing is, I think that if we senior citizens had seen, for instance, the fairness in the cuts, you know, obviously some people think we don't read or we don't listen, but if they have seen fairness—if we had seen the military getting the same cuts—you are talking about a lot of people who are very patriotic.

But when they see those things they saw, those abuses in the military spending, they say, hey, that is not fair, because there are a portion of us of the older people in America that are living in poverty, and we are concerned about them.

That is why we are here. We are concerned about them to the point to say we protect their rights as much as our own when we protest against the cuts in Social Security and Medicare benefits and so on.

Mr. Russo. The gentleman's time has expired. Are there any other questions of the panel?

Mr. Prete, thank you very much.

Mr. Prete. Thank you, Congressman Russo, Congressman Gray, and all of you.

Mr. Russo. The next witness is Leo Melamed, chairman, Chicago Mercantile Exchange.

The Chairman would like to say something.

The Chairman. It is certainly good to see you again and to be here in the city. We certainly welcome you to the committee and we look forward to your testimony.

As you know, we will enter it in its entirety into the record. We hope you might be able to summarize so that we can get into questions.

Thank you very much. It is good to see you.

STATEMENT OF LEO MELAMED, CHAIRMAN, CHICAGO MERCANTILE EXCHANGE

Mr. Melamed. Thank you, Mr. Chairman. Welcome back to our city.

I am going to read a brief portion of my remarks and go into some oral testimony about the main issue I would like to address.

First, my name is Leo Melamed. I am special counsel to the board and chairman of the executive committee of the Chicago Mercantile Exchange.

Mr. Chairman, I welcome this opportunity to appear before this august body and address the issues of the budget. I am going to give you a brief intermission, Mr. Chairman, from some of the focus you have been hearing this morning and address another area of the budget that is of concern to us in the financial community, specifically the U.S. deficit.

The Chicago Mercantile Exchange is the world's leading financial futures and options exchange. Our markets include contracts on a wide variety of financial instruments such as currencies, interest rates, and stock indexes as well as basic agricultural commodities such as livestock and lumber. Each day our markets offer investment opportunities to the public at large as well as provide the mechanics of price risk insurance for a multitude of commercial activities.

In your recent televised remarks, Mr. Chairman, you stated that the national debt had doubled. Sadly, that is not only true, it is an understatement. It took 30 years from the end of World War II for the U.S. debt to double the first time. It then doubled again in only 7 years, from 1975 to 1982. Now, in the last 4 years it has almost doubled again. At this rate, the U.S. debt will soon be doubling annually.

Mr. Chairman, unfortunately, I have no easy solutions nor quick fixes to offer you or this committee. The problem embodied in the budget deficit is, as we all know, so complex and of such monumental proportion that no easy or single answer is available—and it is made even more complicated by virtue of Gramm-Rudman—constitutional or not.

The problem was not made any easier by the recently proposed 1987 budget which was roundly criticized by both Democrats and Republicans alike. Senator Mark Andrews called it "totally unrealistic," while Senator Lawton Chiles described it as "last year revisited," and Representative Les Aspin said it was "DBA, Dead Before Arrival." You, yourself, Mr. Chairman, summed up the frustrations felt by many when you said, "Last year we got criticized for dipping into the cash register and this year they want to sell the cash register." I agree with that remark as well.

Indeed, we do not envy the job of this committee. While many of us in the private sector often criticize the work product of Congress, most of us readily admit that the responsibilities you assume are awesome and sometimes impossible. In the case at hand, this committee will need to discover answers to the current budget dilemma, ones which King Solomon himself would have found difficult to find. Such is the magnitude of the problem.

To focus on what we, the financial community, see first-hand is to talk about the deficit itself. We see it in the deteriorated farm economy of our country. We see it in high real interest rates and we see it in the deplorable balance of trade. The balance of trade, sir, is what we see best because we can feel and touch it on a daily basis. Recently we heard our administration and other folk in Congress and in the officialdom of Washington, DC, say to us that the real fault here is the high dollar because it is the high value of the dollar that causes most of the economic woes concerning the balance of trade—which you know recently led to a $148.5 billion deficit.

Well, sir, there is no denying that the high dollar value makes us noncompetitive internationally and causes much of our farm problem. It also leads to the loss of jobs in the manufacturing sector because it makes it easier to import than to export. Clearly the dollar is a problem. But, to say that the dollar is the villain of this drama is to oversimplify a very, very complex issue and one I would like to address further. The dollar, sir, is not the villain. The dollar is the result of the budget deficit. In recent years, the administration, our Government, had to decide how to fund the deficit.

There are only three ways in which you can fund the deficit. One way is to restrict investment and in doing so cause a major recession by drawing from the funds available in the private sector to fund the deficit. The administration and the Congress did not want to do that.

The other way is to draw from savings from the public to fund the deficit. There was not enough, and you could not do that.

The third alternative is the one they chose to do and the only one available—that was to export our debt internationally and fund it using foreign money. This was accomplished by increasing the flow of foreign capital to this Nation. That was their only choice; in fact, the only thing they could have done and they did it. But in doing so, sir, they had to effect a high dollar because it was the only way to equilibrate the effect of the need for capital.

Our interest rates had to increase to attract foreign money, and as a result our dollar became overpriced. Thus, the value of the dollar is the result, not the cause of the budget deficit. To phrase it the other way around would be a misdirection and a falsehood.

In fact, the recent focus on the dollar was simply to divert the attention of Congress and Congressmen who have been instituting bills to correct the balance of trade by putting up trade barriers. Well, clearly we have been dealt with unfairly in international trade and I do not believe many of our trading partners play fairly with us. But, trade barriers clearly are not the answer that we, in the financial community would prefer.

In as much as we do not prefer trade barriers, we also do not prefer fictitious or unrealistic ways to knock down the dollar. That is like throwing out the thermometer that is telling you the patient is sick. The patient is sick, sir, but the disease is the budget deficit. I do not envy you, Mr. Chairman, or this committee, the difficult job of determining what to do about the budget deficit. We in the financial community know that it must be attended to and it cannot be attended to in a fictitious manner either by instituting trade barriers or by artificially reducing the dollar. Thank you.

[Testimony resumes on p. 109.]

[The prepared statement of Mr. Melamed follows:]

TESTIMONY
OF
LEO MELAMED
SPECIAL COUNSEL TO THE BOARD
CHICAGO MERCANTILE EXCHANGE
BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
BUDGET COMMITTEE FIELD HEARING
UNIVERSITY OF ILLINOIS AT CHICAGO
CHICAGO, ILLINOIS
MONDAY, FEBRUARY 10, 1986

* * *

My name is Leo Melamed. I am Special Counsel to the Board and Chairman of the Executive Committee of the Chicago Mercantile Exchange.

Mr. Chairman, I welcome this opportunity to appear before this august body and address the issues of the budget, a topic currently uppermost in the minds of our financial community.

Let me begin by telling you a little about the institution I represent. The Chicago Mercantile Exchange is the world's leading financial futures and options exchange. Our markets include contracts on a wide variety of financial instruments such as currencies, interest rates and stock indexes as well as basic agricultural commodities such as livestock and lumber. Each day, our markets offer investment opportunities to the public at large as well as provide the mechanics of price risk insurance for a multitude of commercial activities worldwide.

With your permission, Mr. Chairman, I will waste no time in coming to the essence of my testimony today. It concerns the most vexing and critical problem facing our nation at this time. It represents the most formidable challenge to every sitting member of the United States Congress and is the single most-discussed issue within the American business community. Stated simply, it is the unprecedented and staggering United States budget deficit.

In your recent televised remarks, Mr. Chairman, you stated that the national debt had doubled. Sadly, that is not only true, it is an understatement. It took 30 years from the end of World War II for the U.S. debt to double the first time. It then doubled again in only seven years, from 1975 to 1982. Now, in the last four years it has almost doubled again. At this rate, the U.S. debt will soon be doubling annually.

Mr. Chairman, unfortunately I have no easy solutions nor quick fixes to offer you or this Committee. The problem embodied in the budget deficit is, as we all know, so complex and of such monumental proportion that no easy or single answer is available -- and it is made even more complicated by virtue of Gramm-Rudman -- constitutional or not!

The problem was not made any easier by the recently proposed 1987 budget which was roundly criticized by both Democrats and Republicans alike. Senator Mark Andrews (R-ND) called it "totally unrealistic," while Senator Lawton Chiles (D-FL) described it as "last year revisited," and Representative Les Aspin (D-WI) said it was "DBA -- Dead Before Arrival." You, yourself, Mr. Chairman, summed up the frustrations felt by many when you said, "Last year we got criticized for dipping into the cash register and this year they want to sell the cash register."

Indeed, we do not envy the job of this committee. While many of us in the private sector often criticize the work product of Congress, most of us readily admit that the responsibilities you carry out are awesome and sometimes impossible. In the case at hand, this committee will need to discover answers to the current budget dilemma, ones which King Solomon himself would have found difficult to find.

It might be instructive at the outset to take a "macro-glance" at the present budget, as proposed, to determine in a general way how our priorities have changed over the last decade. As it stands, the proposed $994 billion fiscal 1987 budget favors defense, results in the sale of some government properties, and terminates or reduces a number of domestic programs.

In 1977, 43% of the budget went into direct payments to individuals. The 1978 budget would result in a 2% reduction from that level. For national defense, the budget increased from 24% ten years ago to 28% today. Grants to the states and localities were severely affected over the years with a drop from 17% to 10%. The ubiquitous miscellaneous provisions have fallen from 9% to 6%. And, of course, payment of interest on our national debt, the so called "debt service," has more than doubled over the decade going from 7% to 15%.

Much of the early criticism the 1987 budget has received comes from the urban sector. Urban leaders, upon analyzing the new budget say it would virtually eliminate the ability of cities to provide social services, undertake housing and mass transit improvements and spur economic development. Their concern is understandable.

In the case of Chicago, the President's urban aid cuts would strip almost $277 million in federal funds or about 45% of the $622 million our city is to get in 1986.

Moreover, across our nation, many middle class Americans would be affected since many familiar programs important to them would be curtailed. For example, the Federal Housing Administration would be cut dramatically and eventually sold to the private sector. Amtrak subsidies would be abolished, perhaps forcing it into bankruptcy or sale. And, student loans, one of the most-popular middle class programs in the budget, would be cut by $1.3 billion in fiscal 1987 and $12.8 billion over five years.

However instructive, it is unnecessary at this hearing to cite all the examples of endangered programs in the 1987 budget. Suffice it to say that if passed in the form proposed, the 1987 budget would adversely impact every American irrespective of his social or economic strata. It would thus effect the rich, the middle class and the poor. It would effect the urban sector as well as the farm, the industrial center and the rural, the North, the South, the East and West.

While we readily agree with the assessment by those who claim that the proposed budget is unduly harsh on the domestic side of things, we do not for a moment suggest that all of what the Administration proposed is wrong. Many federal programs and regulatory agencies were ill-conceived and deserve to be terminated; many have become unnecessarily bloated over the years and need to be cut back; in many other cases, our priorities have changed over time and thus some programs deserve curtailment in order to effect a focus change. On the other hand, we have no doubt that militarily our nation must remain sufficiently strong so as to deter our enemies from becoming overly aggressive.

The point of all of this rhetoric, Mr. Chairman, is simply to underscore that which you already know. Your job is a most difficult one, if not impossible. It is you and this Committee that must fairly and correctly determine our national priorities and at the same time keep them within our means.

Such is the magnitude of this problem, and the best I can hope to achieve with my brief testimony today is to focus on the budget deficit and particularly on those aspects which we, in the financial community, see and feel on a daily basis and in very real terms. Mr. Chairman, we see it in our deteriorating farm economy, we see it in terms of high real interest rates, and we see it in a deplorable balance of trade.

Allow me to dwell just a bit longer on the latter of the three destructive deficit effects. Mr. Chairman, as you know, in 1985 the merchandise trade imbalance grew to an unprecedented $148.5 billion making it the most formidable roadblock in the future viability of our nation. Indeed, the trade deficit affects every aspect of our economic well-being and is one of the single largest causes for our sorry state in agriculture as well as the loss of jobs in the manufacturing sector.

As anyone can tell you, Mr. Chairman, the American trade imbalance is due primarily to two factors which combine to make it difficult for us to compete internationally. First, because of unfair trade practices on the part of some of our foreign trade partners, and second, because of the high value of the dollar which makes it cheaper to import than to export.

While the foregoing is quite true, it is far too simple an explanation and by far not the complete picture. Indeed, although it has become quite fashionable to blame all our current economic woes on the high dollar and therefore on the flexible exchange rate system which fostered its value, such an assessment is a "misdirect" and creates a false impression.

To us, it seemed rather obvious that the recent "dollar focus" on the part of many in government was for the specific purpose of reducing the growing congressional sentiment in favor of trade restrictions. And, while we are adamantly opposed to artificial trade barriers, we are equally opposed to any artificial means for establishing values in currency.

Mr. Chairman, allow me to emphatically state that the high price of the dollar is not the culprit in this drama. The real villain of the trade imbalance is none other than the budget deficit.

To argue, as some do, that the high dollar impacts adversely on our economy belabors the obvious but does not explain how or why the price got there, nor does it prove the flexible exchange rate system is at fault. Rather, the opposite is true. Price is but a reflection of a fundamental value in the market. Thus, the high price of the dollar is simply a direct result of the underlying cause. Allow me to explain.

Our extraordinary federal budget deficit of recent years could only be funded in one of three ways: restricting investment, increasing savings or exporting our debt. We rejected the first alternative, were insufficient in the second and thus relied heavily on the third. Accordingly, rather than being the cause of our trade deficit, the strong dollar resulted from the fact it was the main equilibrating factor which enabled trade exports and imports to make the adjustment necessary to satisfy our extra large debt appetite.

It is imperative that we understand this and correctly evaluate the actual role of floating exchange rates in the present situation. Given the need for foreign capital and the inevitable trade deficit it entails, permitting the price mechanism of floating exchange rates to determine how that trade deficit is to be achieved is the most equitable, and certainly the most efficient, means of getting a very difficult job done.

Indeed, floating exchange rates, while far from perfect, are the best system man can offer in order to sort out the complexities which make up relative value of currency. As E. Gerald Corrigan, President of the New York Fed, recently said "...the widespread sense of frustration with the current system of floating exchange rates is understandable and we certainly should be sensitive to opportunities to strengthen the system, but to think that a return to fixed exchange rates or to something like a gold or commodity standard is going to provide magical and painless solutions to our problems is sheer folly."

Mr. Chairman, we in the financial community submit that the fundamental truths governing the value of money are no different than those for all commodities. The market forces which ultimately overpowered OPEC (a man-made method to artificially ordain the value of oil) will be the same market forces which will similarly undo the manipulations of the Group of Five or any other artificial system attempting to dictate the relative value of the dollar.

We further submit that a fixed rate or targeted range for currency in international capital markets of this day and age will last for only so long as market forces agree with it plus less than one working day thereafter. The danger of believing otherwise is the same as in the case of any false messiah. The truth will be intolerably painful and in this case will result in greater uncertainty, higher inflation, increased volatility and accentuated price dislocations.

If we are to solve our current economic dilemma, we must first recognize the real cause and then not be panicked into irrational action nor blindly accept a simplistic rationale as the gospel. The budget deficit, Mr. Chairman, is the disease, and it will do us little good to attack the thermometer.

Thank you.

* * *

The CHAIRMAN. Thank you very much, Mr. Melamed, for your testimony.

I know of your background. You have been one of the leaders in this community's financial sector on the Mercantile board. Let me just ask one question.

Do you have any suggestion on how we could bring down the deficit and, second, would you put that in relationship to this budget proposal that has been suggested by the President? Do you see this budget as dealing with that structural deficit in a realistic way, and in a way that will strengthen the financial and economic future of this country?

Mr. MELAMED. Specifically, the answer is that I do not feel that the recently proposed budget is one that will achieve the desired result because clearly it is unfair on the domestic side of the reductions it is demanding. Clearly a better set of priorities is necessary to do both. That is the difficulty of your job. I agree that militarily we must be strong to fend off would-be enemies or prevent our present enemies from becoming too aggressive. However, when you lean in the direction of defense to the extent of this administration, you take too much from the domestic side of things. As a result, some of the programs we have been hearing about all morning will suffer unnecessarily and severely. I believe a different type of balancing has to be done. It is not an easy job but I would prefer a different set of priorities.

The CHAIRMAN. The Chair yields to the gentleman from Illinois, Mr. Russo.

Mr. RUSSO. Mr. Melamed, I recall in the days of Jimmy Carter when he was having budget deficits of about $40 billion, the business community was up in arms as to how this deficit was going to destroy the economic vitality of this country. In fact, the business community rallied around the cause of bringing down deficits.

The 4 years of Jimmy Carter gave us $183 billion deficit. The present administration does that deficit in only 1 year. Is the business community, in your opinion, going to rally around a movement that would seek cuts in military spending, since we know how much waste is there, and favor some kind of tax increase? As you know, the 1981 tax cut over the last several years has given us a reduction in revenues of about $1 trillion, as I understand it, and with the doubling of defense spending, you can basically attribute your entire budget deficit to those two factors.

When is the business community going to bring to bear the kind of influence that they did in the Carter years to try to get this administration to do something other than just pay lipservice to the deficit problem as has been the case over the last 5 years?

Mr. MELAMED. Congressman Russo, I think many in the business community recognize the possibility of and need for additional taxes—or at least additional revenues to help balance the budget. I believe many business leaders would privately agree because we see the problem that you are wrestling with. We see that the present amount of money just is not sufficient if our Nation expects to attend to all its priorities. We are not going to agree that the defense part of our budget be reduced to such a point as to put us in danger militarily. Clearly, there has got to be a shift of priorities with some additional revenues. We do not deny that.

Mr. Russo. I appreciate the statement, but I guess there was a key word you said there that kind of disturbs me. You said that "privately" you would say that. I think that is the problem. The business leaders in this country are not publicly saying something as they did when they felt threatened by a $43 billion budget deficit.

What disturbs me, as the gentleman who testified before you pointed out, is that these big massive cuts in 1981 went to big, wealthy corporations in this country who did very little for powering it back into productive events in this country. So it seems to me as long as they are benefiting from a largess, they keep their mouth shut.

I find that horrible that the business community is not doing the kind of things that you say are needed in a public fashion rather than a private fashion. I know what they say to me when they come to my office is what they say to every other member of this committee. Why don't they do it publicly? What is wrong with the business community publicly stating the things they need in order to rally public support?

Mr. Melamed. Mr. Russo, I thoroughly agree with you that public support of a revenue-raising program must be heard. However, until the time that such a program is submitted to Congress and gets the attention of the press in a specific form, I think that it is futile.

But, I do agree that at the point in time when such a measure is produced and is suggested by either the Senate or the House, I think you will see business leaders throughout this country publicly support it. I do not think the business community of this Nation is any less patriotic than the people within the urban centers protecting the social welfare programs of this Nation.

I think many within our business community will publicly support those revenue measures that are necessary to balance the budget in a more correct and fair fashion. I also applaud you and the House Ways and Means Committee under the chairmanship of Mr. Rostenkowski who proposed a very fair budget and tax procedure. In the case of your tax bill, the minimum tax was raised and shifted around in such a way that there is more responsibility within the business community. I do not believe many business leaders in this country were opposed to what you did.

Mr. Russo. Let me just conclude by saying that the business community did take a leadership role in the 1981 tax program. They fought hard for 1053, for the Kemp-Roth proposal for the reduction in the depreciation schedules. They pushed it. They made it a public focus because it benefited them. What I am saying now is that they still have a tremendous stake in the future of the country and a role to play, and that role is not necessarily to simply wait for Congress to propose a bill for them to support.

I think it is necessary that they come out and do something positive, take an active role and suggest a course of action as they did in 1981 when we had these big massive tax cuts. They ought to come out and openly propose a plan that helps reduce the budget deficit, especially when you have a President who is insisting that there is no way he is going to prove Walter Mondale right, who is insisting there is no chance of a tax increase and that the only way to reduce spending is to cripple the domestic side of this country while he is asking for a $34 billion increase in defense spending this year, which I find absolutely absurd. Leadership is needed in the business community to come out with a proposal, rather than just react to what the Congress does, in order to help us build the kind of support that we need in this country.

I appreciate your testimony.

Mr. MELAMED. Agreed.

The CHAIRMAN. The Chair recognizes the gentleman from Montana, Mr. Williams.

Mr. WILLIAMS. Mr. Melamed, let me continue to pursue this matter of revenues. As you know, several leading Senators have broached the possibility of tax increases in the near future. If there was a tax increase and if that money was applied to the deficit rather than applied to increased spending, could you look into that crystal ball that you have downtown and tell me what the effect would be of this exchange?

Mr. MELAMED. Well, I think anything that would responsibly reduce the budget deficit will be overwhelmingly supported by the markets.

Mr. WILLIAMS. Even a tax increase?

Mr. MELAMED. Even a tax increase, as long as it is one that is judiciously implemented and does not unduly destroy the sector being taxed; or is spread in such a fashion it can best serve its intended purpose without the damages that might otherwise result if it were irrational or unreasonable.

I think there are ways in which to increase taxes that the business community would applaud and support, and that the markets would, in fact, support.

Mr. WILLIAMS. Taking the tax reform bill which, as you know, of course, is now over in the Senate, what adjustments could be made to that bill which would meet the criteria of rationality that you refer to in raising revenue?

Mr. MELAMED. Well, I am afraid now you are asking me for some tax expertise that I do not have. I am much more comfortable talking about the value of the deutsche mark than I am this kind of thing, and I would like to defer that to a tax expert.

Mr. WILLIAMS. Would an increase in the rates a percent or two, particularly in the higher brackets, be of concern to America's businesses?

Mr. MELAMED. I am sure it would be of concern, but I think that we could live with something.

Mr. WILLIAMS. Thank you very much.

The CHAIRMAN. The Chair recognizes the gentlewoman from Illinois, whom I believe represents the Chicago Mercantile Exchange of which Mr. Melamed is the special counsel to the board and a former past chairman, Congresswoman Collins.

Mrs. COLLINS. Thank you. You are absolutely right, Mr. Chairman. I am delighted to see Mr. Melamed here today.

I was very interested in the fact that much of your testimony centered around the high flying dollar in the overseas market. You attribute that to a great many problems and it comes down to the budget imbalance of trade deficits. On the other hand, there are other constituents of mine who would say just as readily that it is not all a matter of the high dollar, some of it is a matter of unfair trade policies, some of it is a matter that we are not buying America, that businesses are not coming here, that we don't have a protectionism, that there are other artificial restrictions that are needed.

What are your thoughts about those kinds of statements that are being made all over the place?

Mr. **Melamed**. Some of that is true. Some of it is not.

Certainly there are unfair trade practices. The European Economic Community, for instance, in agriculture surrounds itself with a very, very high wall. It says all the pretty things—it pays lipservice to freedom of trade, but it does not do it. It makes it very difficult for us to ship our grain, our dairy products or anything overseas to Europe. The Japanese have been notoriously slow in giving us a fair market stance. Clearly a lot of work has to be done in that area.

As a matter of fact, the former president of the Chicago Mercantile Exchange who is now U.S. Trade Representative learned of these things and knows that because of unfair trade practices throughout the world, the United States is an easy target. The United States has a big heart and always tries to be fair about things, you know.

By this, I mean we have open markets. The others countries do not and take advantage of us. We certainly must get fairer trade practices from the rest of the world. Otherwise, we have to get much tougher. The question is, do we want to go to the extent of building trade barriers around ourselves. Based upon what I know from this arena the answer is an emphatic "No." Even though other countries are making this mistake, two wrongs will not make it right.

Mrs. **Collins**. It makes us even.

Mr. **Melamed**. It will make you even for only a short while. But, in the long run, witness 1933, it may produce a horrible depression because trade is what we live on in this Nation as well as worldwide. If we create a world depression, it will serve nobody.

We have to be smarter than that and I believe we can be. I think we can force fair trade practice on them or use ulterior ways to pass legislation and force them without trade barriers. I think we can do it. I think we have to do it. But, you are right. You are right in this respect.

The problem is twofold: Unfair trade practices and the high dollar; but, both of them have something to do with the budget deficit.

Mrs. **Collins**. Thank you very much.

Mr. **Melamed**. Thank you.

The **Chairman**. The Chair recognizes the gentleman from Illinois, Mr. Evans.

Mr. **Evans**. No questions.

The **Chairman**. The Chair recognizes the gentleman from Wisconsin, Mr. Moody.

Mr. **Moody**. When this President came into office we were spending about $143 billion on defense and now, of course, it has more than doubled. Now, the President is asking for $320 billion. What do you think the business community's reaction would be if it were suggested there be a tax earmarked specifically for defense?

Mr. Williams asked about a tax specifically earmarked for deficit reduction. What about a tax earmarked for huge defense spending increases; this spending that has been added and superimposed on the rest of the budget over the last 5 years? How about a tax earmarked for that?

Mr. MELAMED. It is an interesting concept. Actually, I have not heard of it before, but it is one that probably should be looked at in terms of what is available. We should look at all the arsenal available to the Congress and the United States in trying to balance the budget.

If that is one approach, I would like to clearly study it along with other business leaders. One of the direct approaches is what Congressman Russo suggested.

I think you ought to cut the price of toilet seats.

Mr. MOODY. That will save a few bucks.

Mr. MELAMED. Hammers and things like that, nails. I hear nails are very expensive in Congress, too.

Mr. MOODY. We have increased the mission of the Defense Department in many ways.

We want a 600-fleet Navy. That costs money irrespective of waste. We want to do Star Wars. That costs a lot of money.

My question is, since we want a lot of new hardware and a commitment to shore up military strength around the world, don't you think we should pay for it?

Mr. MELAMED. Clearly we have to pay for it.

Mr. MOODY. I mean, on an earmarked basis if that is really what we want.

Mr. MELAMED. That may be the way. It could be the approach.

The CHAIRMAN. The Chair recognizes the gentleman from Illinois, Mr. Savage. Mr. Savage has no questions.

Mr. Melamed, we want to thank you for your testimony, particularly coming from the business community. Especially your stating that that business community is willing to support one solution that involves a revenue as part of it.

One of the things we want to do in these hearings is not only hear about the pain, not only hear about the problem, but we are also interested in people telling us what are some of the ways that we can deal with this crisis. So we appreciate your sharing that suggestion with us. Thank you very, very much.

Mr. MELAMED. Thank you.

The CHAIRMAN. The Chair calls to the witness stand John Stroger, chairman of the Cook County Finance Committee.

The Chair would like to inform all of the other witnesses who are waiting, we are now about 30 minutes behind schedule. We are hoping that we are going to make up this time. We would ask those witnesses who are waiting to be heard if they would be looking over their testimony so that they can find ways to summarize it.

The full testimony will go into the record and thus we can spend more time with regard to questions.

Mr. Stroger, we welcome you to the committee and invite you to summarize your testimony and begin.

STATEMENT OF JOHN STROGER, CHAIRMAN, COOK COUNTY FINANCE COMMITTEE, ACCOMPANIED BY SUSAN HAYES, COOK COUNTY GOVERNMENT, AND FORMER PRESIDENT OF THE NATIONAL ASSOCIATION OF COUNTY COMMUNITY DEVELOPMENT DIRECTORS

Mr. STROGER. Thank you, Mr. Chairman. Mr. Chairman, and members of the committee, I would like to also acknowledge sitting next to me is Susan Hayes, who works for Cook County government, but has been the former president of the National Association of County Community Development Directors, an organization that represent 110 urban counties.

Mr. Chairman, members of the committee, as it was stated, I am John Stroger, chairman of the finance committee at the board of commissioners of Cook County, but I am here not only speaking for Cook County, one of the largest counties in the United States, larger in terms of dollars and population than most States in our Union, I am speaking for the National Association of Counties because I serve in the capacity of the chairman of the health and education steering committee.

The National Association of Counties is made up of more than 5,000 counties throughout the United States and parishes, and we are the last resort-type of form of government.

So often people think about Chicago, New York, and all of the large cities, but these cities fall and villages and townships fall within counties and when things go wrong, the responsibility for taking care of people falls to the counties.

The Nation's county government officials support equitable reform to reduce Federal deficits. Counties have actively participated in developing solutions to the Nation's fiscal problems. Since the late 1970's, the National Association of Counties has supported cuts in certain Federal domestic assistance programs and has worked with Congress and the administration to share the burden in attempts to balance the national budget.

The President's 1987 budget again proposes to cut deeply into programs that are vitally important to local government and particularly the middle and lower income citizens of our communities. Increasing defense spending at a rate of 8 percent above inflation would be done at the expense of maintaining adequate public services.

Our Nation's roads, education systems, health care, environment—in short, the quality of life that we enjoy—would indeed be threatened if Congress accepts such draconian cuts.

If adopted, the President's budget further shifts national spending priorities more than it resolves the Federal deficit. It continues the trend of Federal expenditures from 1980-85 which in real terms increased defense spending by nearly 40 percent while decreasing State and local program funding by 24 percent.

In the 1987 budget, the administration proposes that for every dollar a citizen pays in taxes, only a dime will go back for State and local services and defense will receive 28 cents. Because of this trend, the NACo taxation and finance steering committee, for the first time, has urged the overall NACo membership to call for restraint in defense spending. Such a resolution will be considered at our legislative meeting in March.

County governments have accepted more than their fair share of budget cuts. The large decrease in State and local grants has not served to decrease the Federal deficit, as we had been led to believe. In fact, the deficit has continued to climb. Savings from reduced domestic spending have been shifted to increases in other program areas.

I will at this time summarize the rest of this by telling you that county governments are the governments of last resort. It is a universal form of government in our system. As you know, citizen villages are created by charters, but counties come into existence because of the importance they play to the State in carrying out some of the day-to-day services that State governments would have to deliver in the absence of counties.

We have been and will be adversely affected throughout the United States if General Revenue Sharing, which is a very integral and important part of county government, is continued to be reduced and conveniently eliminated. Here in Cook County where I serve as the chairman of the finance committee, most of our money that comes in forms of general revenue sharing goes into the administration of criminal justice and the justice system and without that money it would be hard pressed on our county, which is an urban county with high unemployment where unemployment is on the rise, where all of the social evils that we have talked about in the last few hours are prevalent, we would have a problem and the president of the county board of commissioners has asked me to say, and I think this would reflect the thinking of most local officials because I read where my friend Dutch Morrel stated the President of the United States is saying no tax increases but in fact it just won't be a national tax increase.

If we are to give those basic services that the counties are called upon to give as the government of last resort for the mentally ill who are walking the streets here, for those who fall sick and go to the Cook County hospital, for those older people who have nowhere to go but Oak Forest Hospital, and to those people who unfortunately fall into the cracks and go to the jails and go through our criminal justice system, if we are to do that, money must come from somewhere and President Dunne shares with all of the county officials, as I do, throughout the country, that this committee and that Congress in general—we have contacted our Senators, must not follow the President's lead.

I will say—and this is not in the written testimony, but all of your students of history because no one becomes a political figure and particularly at the national level unless he has some appreciation of history. From the dawn of mankind all great nations are very seldom defeated externally. They may ultimately be defeated externally, but the real blow is done internally and we cannot continue to have people without jobs, without proper health care, and all the other social amenities that is necessary to keep a strong internal society without some assistance from the National Government.

I share the views of all of the leaders in county government throughout the United States from the South to the North, and from the East to the West. I am prepared to answer questions.

I think generally our prepared statement speaks for itself and if there are any questions dealing with community development grant funds, Susan Hayes would be willing to share with me in answering those questions.

[The prepared statement of Mr. Stroger follows:]

PREPARED STATEMENT OF JOHN STROGER

Good morning Mr. Chairman and members of the committee, I am John Stroger, commissioner in Cook County and chairman of the National Association of Counties' Health and Education Steering Committee. Thank you for the opportunity to respond to the 1987 budget proposals. In my testimony, I would like to first give you a broad overview of our position on the budget and then highlight a few specific programs.

The Nation's county government officials support equitable efforts to reduce the Federal deficit. Counties have actively participated in developing solutions to the Nation's fiscal problems. Since the late 1970's, the National Association of Counties (NACo)[1] has supported cuts in certain Federal domestic assistance programs and has worked with Congress and the administration to share the burden in attempts to balance the national budget.

The President's 1987 budget again proposes to cut deeply into programs that are vitally important to local government and particularly the middle and lower income citizens of our communities. Increasing defense spending at a rate of 8 percent above inflation would be done at the expense of maintaining adequate public services. Our Nation's roads, educational systems, health care, environment—in short, the quality of life that we enjoy—would indeed be threatened if Congress accepts such draconian cuts.

If adopted, the President's budget further shifts national spending priorities more than it resolves the Federal deficit. It continues the trend of Federal expenditures from 1980-85 which in real terms increased defense spending by nearly 40 percent while decreasing State and local program funding by 24 percent. In the 1987 budget, the administration proposes that for every dollar a citizen pays in taxes, only a dime will go back for State and local services and defense will receive 28 cents. Because of this trend, the NACo Taxation and Finance Steering Committee, for the first time has urged the overall NACo membership to call for restraint in defense spending. Such a resolution will be considered at our legislative meeting in March.

County governments have accepted more than their fair share of budget cuts. The large decrease in State and local grants has not served to decrease the Federal deficit, as we had been led to believe. In fact, the deficit has continued to climb. Savings from reduced domestic spending have been shifted to increases in other program areas.

There are a few specific programs I now want to highlight.

GENERAL REVENUE SHARING

Reauthorization of general revenue sharing is NACo's top priority. Besides requesting no authorization, the President proposes to rescind the entire October 1, 1986, fourth quarter payment.

General revenue sharing is an important part of county budgets. In Illinois, it represents 7 percent of local governments' budgets. Nationwide, 62 percent of the counties we surveyed use it for health care and social services, and this trend is increasing to fill in the gaps of Federal cuts. When asked, they tell us elimination of the program will mean higher taxes in some communities and reduced services in those having a declining tax base or which have reached their maximum tax levy under State law.

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[1] The National Association of Counties is the only national organization representing county government in the United States. Through its membership, urban, suburban and rural counties join together to build effective, responsive county government. The goals of the organization are to: Improve county government; serve as the national spokesman for county government; act as a liaison between the nation's counties and other levels of government; achieve public understanding of the role of counties in the Federal system.

In Cook County in 1983, the most recent complete data available, nearly all of our GRS funds went to police and corrections. Over 28 percent of our police budget was financed by GRS funds. With the loss of GRS, drastic cutbacks in public safety would be required, if we could not find alternative additional revenues or shift budget priorities.

For the State of Illinois, over $36 million of the the $44.6 million 1983-84 allocation was devoted to police, corrections, health, education, and welfare.

Gramm-Rudman overshadows much of our county and State finances. We have heard the argument that "there is no Federal revenue to share." Yet, the Fiscal Planning Services, Inc. has recently estimated that the possible fiscal 1987 Gramm-Rudman cuts would leave Illinois with a deficit of nearly $345 million. General revenue sharing is essential to filling in those possibly huge gaps.

MEDICAID

We know that health care is costly because 34 States hold county governments legally responsible for indigent health care. Capping or freezing the Federal contribution to Medicaid does not stop the caseloads from growing. The $1 billion in so-called savings in the 1987 budget is ultimately a cost shift to State and local governments. The uninsured sick and injured continue to be dropped on our doors. At the county level, we accept this responsibility, but we cannot do it alone. We need the commitment at the Federal and State levels to insure access to minimum health care for all.

MASS TRANSIT

The budget includes a $2.6 billion cut in mass transit, with the remaining $1.1 billion in Federal funding coming from the 1-cent gasoline tax. This $1.1 billion will be merged with $2.2 billion from the Highway Program to form a block grant, none of which can be used for transit operating assistance, a form of assistance essential to counties.

CDBG/UDAG

The Community Development Block Grant (CDBG) and the Urban Development Action Grant (UDAG) face severe reductions, with UDAG proposed for termination and CDBG receiving a 32-percent reduction within the past year.

CDBG is the cornerstone urban development tool used by local governments for housing rehabilitation, public facilities construction and job creation.

In its 12-year existence, the program has attracted substantial private reinvestment to local communities, making it an extremely effective and popular program to urban and rural counties. Like general revenue sharing, CDBG provides flexible use of funding for necessary community project and services. We cannot accept another cut in this program.

RURAL PROGRAMS

More than 2,500 of the Nation's 3,100 counties have fewer than 50,000 residents. Many of these small counties rely heavily on farming and farm ancillary business as their chief economic base.

Rural local government revenues decrease as business fail. In the face of a dwindling tax base, rural communities cannot sustain the basic services of water, wastewater and solid waste disposal. As a result, few options exist to expand the local economy to nonfarm industries. The proposed immediate termination of phase-out of programs such as the Economic Development Administration, Appalachian Regional Commission, Rural Electrification Administration and rural housing programs would exacerbate the economic problems of these areas.

JUSTICE PROGRAMS

During the mid-1970's when the Law Enforcement Assistance Administration (LEAA) existed, over 40 percent of the Justice Department's budget went directly to State and local governments for justice programs. Today with LEAA long gone, the Justice Department's budget has continued to rise, although now counties, States, and other local governmental units receive less than 5 percent of the Department's overall budget. Last month OMB approved a rescission request which threatens all remaining State and local initiatives, including the Juvenile Justice, Justice Assistance and Victim Assistance Act programs. This action again raises questions about the nature of the Federal, State and local partnership.

ENVIRONMENT AND LAND ISSUES

The Wastewater Treatment Construction Grant Program is scheduled for elimination by 1990. The program is a valuable source of funding to help clean our Nation's water systems. Counties are continuing to build wastewater treatment plants, resource recovery operations, and bring sanitary landfills up to hazardous waste safety standards. But while the national goals, standards, and requirements remain, the Federal funding commitment to pursue these goals is being withdrawn.

Of concern primarily to western counties is the proposal to change the way in which they receive money from forest receipts. Under the proposal, rather than receiving a percentage of the gross receipts, States and counties would receive the money only after the Federal Government skims off the top. If legislation is approved, State and local payments will be cut $225 million, from estimated 1987 receipts of $310 million down to $85 million.

EMPLOYMENT AND TRAINING

In the employment and training services area, the administration is requesting that $462 million be rescinded from the 1986 appropriation and that $824 million be cut from the 1987 budget. These cuts are recommended in addition to the $285 million cut scheduled to take effect on March 1 as a result of the Gramm-Rudman balanced budget act.

Many programs in this area have suffered drastic cuts since 1981. The Job Training Partnership Act (JTPA) and the Work Incentive (WIN) Programs just last year were cut by $288 million (8 percent) and $47 million (18 percent) respectively. Despite the $159 million (4.3 percent) cut imposed by Gramm-Rudman, the administration is requesting that an additional $416 million (12 percent) be rescinded from JTPA and $46 million (21 percent) from WIN in 1986. Moreover, it has requested a $577 million reduction in JTPA for 1987 and the total elimination of WIN.

These programs provide vital services to the economically disadvantaged. Without these services, it will be difficult for these individuals to get the training they need to find employment. Cuts in JTPA and WIN will more than likely be offset by increases in participation in other Federal support programs such as food stamps, AFDC and unemployment insurance.

Mr. Chairman, we appreciate the gravity of the situation and the seriousness of the decisions you will be making. We do ask that you let the principles of fairness and equity guide you. And we ask that you take actions which will enhance not deteriorate the effectiveness of local government. We ask that you not shift any more dollars from domestic to defense spending. Thank you again for the opportunity to discuss our positions with you. I would be pleased to answer any questions you may have.

Mr. **Russo**. I thank the gentleman for his testimony. As always, Mr. Stroger it is nice to see you. We share a lot of good things together, especially graduating from the same law school.

Mr. **Stroger**. And my assisting in supporting you as you run for office over the years.

Mr. **Russo**. I have a question from the gentleman from Illinois, Mr. Savage.

Mr. **Savage**. Not a question, Mr. Chairman, just a brief observation. That is that, first, I commend Commissioner Stroger on his testimony and also would like to recognize that Commissioner Stroger is a leader in the progressive forces among county officials throughout this country.

Mr. **Russo**. Thank you. Mr. Stroger, one very brief question.

If this budget is cut, how would the county make up for the lost resources?

Mr. **Stroger**. Presently we are unable to give our employees an increase in pay because of a reduction in general revenue sharing bonds and the elimination of some of the existing programs now. In our county, where we have a greater demand on us the restriction that has been imposed on Medicare as well as Medicaid has cost us several million dollars as well as these other reductions in grant funds and so forth.

We have been forced to not only cut back a pay increase but we are also holding the spending levels at what departments actually spent last year not taking into consideration the increase, in the cost of purchase for goods this year and personnel, so it will work an extreme hardship on our county government and the testimony will show that it does it for most of the counties throughout the United States.

Mr. Russo. Do you have any means of raising revenues in order to make up for the shortfall?

Mr. Stroger. We cannot continue at this level without further destroying the economic base of this old industrial area where we have been trying to build and encourage at a disadvantage to the Southern and Western States where they have gotten great advantages from the National Government without imposing additional real estate tax or some type of tax, which, in terms, as you know, is regressive and will continue to cause a deterioration in the growth that we need in order to provide jobs for the people in this particular county and this region.

So I obviously understood, as most of us, we could impose a tax but we will continue to do that over the last few years, impose some type of tax to keep up with the cost-of-living increases.

Mr. Russo. So now you are at the point where what you do is cut services?

Mr. Stroger. That is true, and if we cut services at the county hospital, Oak Forest, if we have to continue to cut back on our programs to enhance the growth and development with the use of the community development grant funds we are going to deteriorate this county beyond repair.

Mr. Russo. Thank you very much for your testimony. At the request of some individuals participating in the hearing, we are going to take a 5-minute recess and we will come back with Mr. Fitch from South Chicago Bank.

[After recess.]

The Chairman. Ladies and gentlemen, the Budget Committee will reconvene.

Let us proceed with our list of witnesses. The next witness is James Fitch, president of the South Chicago Bank. We will ask for the patience of other witnesses to follow Mr. Fitch. We know many of you have busy schedules, and we will try to move as quickly as possible. We will remind people who are going to testify, please go over your testimony now to see where you can make some restatements so we can get right into questions and answers.

Your statements will be entered into the record in their entirety. It will become a part of the official proceedings of the House Budget Committee for 1986 and fiscal year 1987 budget.

Mr. Fitch, welcome to the House Budget Committee hearings in Chicago, IL. Please proceed with a summary statement so we may move to questions.

STATEMENT OF JAMES A. FITCH, PRESIDENT, SOUTH CHICAGO DEVELOPMENT COMMISSION

Mr. FITCH. Thank you very much, Mr. Chairman. My name is James Fitch. I am chairman of the board of the South Chicago Savings Bank, which is located on the far southeast side of the city of Chicago, an area which many in this room would know as the heart of the steel-producing area, one that I might add is ably represented by Mr. Savage, who has been present for these hearings today.

I have prepared written testimony of great length detailing the role of the South Chicago Development Commission, which is the hat that I am wearing today, Mr. Chairman, president of the South Chicago Development Commission. That is a locally organized, private corporation of local citizens and public officials. We view our mission and certainly our reason for existence as an effort to provide employment opportunities for our neighbors and our neighborhood.

I am here to speak in support of the continuation of economic development programs within the Federal budget. I would like to advocate the continuation at even a higher level of funding, but I guess I am realistic enough to know that is not a likely occurrence.

The South Chicago Development Commission, which I represent, is only one of many locally organized development groups that operate within the city of Chicago. Probably no other community has suffered the rapid decline in its economic base because of the deterioration of one economic industry as we have in South Chicago, but it is safe to say that as an older city, in the period of economic transition from a manufacturing-based economy to one of a service-based economy, all neighborhoods outside of the Loop in Chicago have suffered greatly in the past decade.

Local economic development organizations everywhere are dependent upon active governmental support at all its levels. We can tell you stories, and we have in our written testimony, of the effectiveness of the Small Business Administration, community development block grants, the Urban Development Administration and the urban development action grants. Every economic development project that I am aware of requires some kind of pump priming of public funds to stimulate the flow of private dollars.

Our experience in our part of town has been that people in companies that are well capitalized seek new sites and they build new plants in new areas. People in companies with only good ideas and shoestring budgets tend to locate in older communities such as ours because existing and often vacant facilities are available without so much up-front capital.

We submitted stories of saving a local shortline railroad to provide an opportunity for all of the businesses located alongside that railroad to continue to operate competitively, and of a new company to our community providing a greatly needed machine repair facility for the basic steel industry that is the source of so much employment in our community.

We told about an effort by local property owners to voluntarily raise their own property taxes so that they might pay for the rehabilitation of dangerous and collapsing sidewalks. There are many other projects to relate, and I am sure that every organization that you may invite to this public hearing in this city could tell you of a similar successful effort to stabilize and rehabilitate their communities and the need of public support for public interest projects.

Each of our efforts have been dependent upon some support from the Federal budget. Each situation we have cited has resulted from changes and other developments of national policy. Each constructive result has been crafted with some level of Federal budget support in the past. Now the budget proposal that is on the congressional table would severely limit the support that has been the foundation of all local development activity, and yet many of our local problems originate in national policy over which we have little or no control.

For example, we are told that the basic problem of the current deficit in the steel industry resulted from the Federal trade policy and the strong American dollar. Those are national issues, not local ones that can be resolved either by the South Chicago Development Commission, the Chicago City Council, or even the General Assembly of the State of Illinois. If we are to respond to the effects of Federal policy, aren't we, then, entitled to the support of the Federal Government to make our transition into the future?

Now, much has been written in recent months of the effort of the State of Illinois to attract the automobile assembly joint venture of Chrysler and Mitsubishi to be called Diamond Star Motors. The State of Illinois has beat its breast, as well it should, for it is anticipated this venture will provide 2,500 new job opportunities for the citizens of Illinois.

Gentlemen, since 1980, my community has lost 16,500 job opportunities in just three steel plants that are located within a 3-mile radius of one another. That is not just an increase in unemployment, gentlemen. Those are job slots that are gone forever. Diamond Star will be located in a former cornfield in central Illinois. I believe that is probably good for the corn growers, but what is going to happen to the cities of America that have funded the Federal budget for so many years in the past?

The House Ways and Means Committee has had on its agenda for nearly 6 years the concept of the development of enterprise zones in urban locations as a revitalization opportunity for these areas. Political debate and resulting congressional inaction has said that these were unnecessary as long as federally funded direct allocation programs were in place. In other words, one was not necessary as long as we had the other.

Now, the budget proposal says we will have neither one. If that is so, it is safe to assume that the deterioration of older urban areas will accelerate even more rapidly in the future.

We believe that organizations such as the South Chicago Development Commission have been a responsible delivery system of Federal policy in the national interest. We are only one of many who have assisted the development and the redevelopment of local communities as a facilitator of Federal, State, and local government policy and as a distributor of public funds in the public interest. Only through stable, developed urban communities can American win the race to the future, which is what the President calls it.

Our system ain't broke, it doesn't need fixing. What it needs is your support, and I thank you for the opportunity to make a statement.

[The prepared statement of Mr. Fitch follows:]

Prepared Statement of James A. Fitch

The South Chicago Development Commission is a nonprofit neighborhood economic development organization which serves the southeast area of Chicago, once the center of the city's steel industry. Our mission is to catalyze economic development which will lead to the creation of jobs for the residents of our community. We are not unique in our mission; over 100 organizations provide similar services in other neighborhoods of Chicago. The problems which we will face on the southeast side can be multiplied by every neighborhood in the city.

In 1981, the business and civic leaders of the southeast side felt that they needed to address the economic problems of the community which had lost 42 percent of its jobs between 1979 and 1983. Twenty-six of our 28 directors represent the private sector; our activities have always been based on a partnership between the private and public sectors.

Our mission leads us to provide a number of services to businesses located in the community. We assist firms in determining new locations, developing financing programs, identifying new products, and new markets. All of these activities are undertaken with the intention that expanding businesses will create new jobs for local residents.

The budget cuts which are being proposed by the administration will put an end to many of the plans for business expansion in our community. The Small Business Administration, Urban Development Action Grants, and Community Development Block Grants have all played critical roles in the expansion of businesses in southeast Chicago.

Many expansion projects have utilized various SBA programs in conjunction with conventional loans. Two notable examples are the expansion of the LaSalle and Bureau County Railroad, now known as Chicago Rail Link, and the expansion of Akron-based Metalkrafters to the southeast side. Chicago Rail Link is a switching rail line which services the Illinois International Port and a number of firms which employ approximately 1,500 workers. For many of these firms, rail transportation was the least costly transportation alternative. Chicago Rail Link had been leasing their tracks from the now defunct Chicago Rock Island and Pacific Railroad. As the Rock Island was pursuing the final liquidation of all their land and track, Chicago Rail Link was notified that they would have to purchase the track which they had been renting since 1980.

The railroad's lender, the South Chicago Savings Bank reviewed their request and determined that prudent lending would allow them to provide $800,000 of the required $1,500,000. At the request of bank we reviewed the various public sector loan programs and recommended that the SBA section 503 program be utilized to provide a second mortgage of $500,000, the maximum amount. Faced with a gap of $200,000, we turned to Urban Development Action Grant funds for the remaining amount needed. All of the funding components were critical to the success of the project which in reality meant the continued operation of this small business but yet, a business critical to the competitive ability of the customers it serves. The railroad has been operating at a profit and continues to provide low cost service to local businesses.

Metalkrafters is a machine shop which services and rebuilds the equipment of the large steel mills. In 1984, because of the way major steel producer maintain equipment now, the company was turning away work. It needed to either build a larger shop in Ohio or expand an existing facility in Indiana.

When a well equipped facility in Chicago was put on the market, the firm decided to acquire it. The purchase price was $2,600,000. The seller took back a mortgage of $1,700,000. Because the owner was only able to put up $130,000 in equity, we faced a financing gap of $770,000. In this case an SBA guaranteed loan of $550,000 was most appropriate financing vehicle. The Development Commission secured a loan of $220,000 from the Local Initiative Support Corporation which we, in turn, lent to Metalkrafters. We believe this project illustrates the power of a potential alliance between three sectors of America; private, public, and not for profit; and, all levels of government. All components were critical to the company's ability to establish itself put 75 people to work in the shop and provide a necessary service to the basic industry in our community. Once it reaches full production, the company expects to have 150 employees.

Community Development Block Grant funds are another critical tool to facilitate economic development in our community. CDBG funded loan programs, capital development projects, and technical assistance programs have played critical roles. All of these programs which we have used regularly have been leveraged with private sector funds.

In South Chicago, many areas including the business district, have vaulted sidewalks which are now collapsing. They were built over 100 years ago for public sewers because the water table was above existing ground level. Because repairs to vaulted sidewalks include building retaining walls, filling the vaults, and laying the surface, the cost of reconstruction is extremely high. The majority of residents have low or moderate level incomes. Businesses which remain in the shopping district face decreasing level of sales because of the high unemployment rate in the community. Local business leaders and city officials spent a number of years seeking low cost methods of repairing the sidewalks in the business district. The cost of reconstructing ten city blocks is estimated to be $3.5 million. An agreement was reached whereby the city would utilize $2,500,000 in CDBG funds and the local property owners would agree to raise their own property taxes by almost 25 percent in order to raise the remaining $1,000,000. The dangerous and decrepit sidewalks have been a deterrent to both new investment and reinvestment in the area. Numerous property owners have been unable to rent stores because of holes in the sidewalk up to ten feet deep.

CDBG funds have also enabled new firms to establish operations in our community. Two companies utilized CDBG funds to pay for portions of the cost of public improvements which were necessary for their operations. One firm required the installation of a main water line which was projected to cost $52,000. CDBG funds paid for 50 percent of the cost; the business owner paid the remaining half. Another firm which warehouses goods transported by barge, in the Illinois waterway system found an adequate riverfront site that had inadequate truck access. Cost estimates for grading and paving a roadbed were $130,000. CDBG funds again were able to pay for half of the cost. Without these funds, neither business would have located in this community. In both companies more than half of the employees are receiving moderate income wages.

Chicago is a city of dynamic communities. Many of those neighborhoods have vibrant development organizations similar to ours. These groups develop community vitality and pride. They stimulate cooperation between public and private sectors and facilitate the delivery of service by all levels of government to the grassroots level. They are dependent upon government; Federal, State and local for support. We have tried to tell you today that they are worthy of Federal support—so everyone can "win the race to the future."

The **CHAIRMAN**. Thank you very much for your testimony, Mr. Fitch. You mentioned that you are concerned about the President's budget cuts. Economic development programs, which have been helpful in your community to rebuild them, are particularly important for older cities in the Midwest. I would agree with you, coming from a Northeastern older city like Philadelphia, they have been quite instrumental.

You also said you are interested in the higher level of funding for quick development. As a banker, I am sure you are aware of the reality of red ink, and I know you would like to have a higher level of funding, but the reality is that it is not going to happen. What is really being suggested by the President's budget is the elimination of most of the programs that you talked about, EDA, UDAG's, et cetera.

It is very unrealistic to think in terms of higher level of funding when you have got a $200 billion plus deficit. Would you be supportive of an approach that would freeze these programs at the 1986 funding level, and maybe make some slight reductions to those programs of 5 to 15 percent, thus maintaining the program while at the same time attacking deficit reduction, in light of the reality of red ink that we have in this country?

Mr. FITCH. Well, Mr. Chairman, I am always afraid of freezes because I think it tends to lock us into situations. We live in a dynamic economy that is constantly changing. I think if we were to lock in something, it would be advantageous to all of us to lock in a system of public-private partnership, and might I suggest to you the great success that came out of the Great Depression in the Federal Housing Administration, which essentially became an insurance agency and where there were premiums charged to those that borrowed to fund a larger amount of a mortgage than what they could do in conventional sources. Is that situation not analogous to a business starting up who may have that good idea, may be supported by the Small Business Administration, but couldn't that group pay a premium for that extra risk that the public at large could fund?

We have seen that work successfully with FHA. We have seen it in several other programs work successfully. It has never been tried. I think it is a reasonable alternative to large amounts of direct public financing to keep the programs going, and we could make the transition from public to private in that manner.

The CHAIRMAN. I guess, Mr. Fitch, my only concern is that this is an innovative approach. It doesn't address the question of deficit reduction and how we reduce the deficits at the same time. I would agree with you; we have probably got to look at some new innovative ways where we can form partnerships with the private sector. Given the limited resources that the Reagan debt has created at the Federal level, and will continue to create for the next 6 to 10 years.

I guess what I am saying to you is that you mentioned certain programs, UDAG's, EDA, Small Business Administration. These programs are currently, under the President's budget, slated for elimination. Given the choice between elimination, with a $220 billion deficit, or a freeze at current funding level for 1 year, which would you prefer coming from the South Chicago Development Commission?

Mr. FITCH. There is no question about it, Mr. Chairman, that we need these programs. I think that is what the statement leads to, to drop the guillotine in 1986 upon every development project in this whole country that is going forward would be disastrous, would be a wrenching that we could not take and the country should not be asked to take. If we have the choice between ratchet-down continuation or none at all, I would be for continuation. If ratchet down is a compromise, that as citizens we must take and you as responsible leaders must lead us to, I would support that. If you are saying drop the guillotine on economic development programs, I would say that that is an irresponsible act.

The CHAIRMAN. Thank you. The gentleman from Illinois, Mr. Russo.

Mr. RUSSO. I have no questions.

The CHAIRMAN. The gentleman from Wisconsin? The gentleman from Illinois?

Mr. Savage, whose district we find the South Chicago Development Commission in and who was already acknowledged by Mr. Fitch.

Mr. **Savage**. I want to apologize, Mr. Fitch, that the sandwich break caused me not to hear most of your testimony, but I do wish to, Mr. Chairman, commend Mr. Fitch as a very civic minded banker and one of the most prominent forces for good regarding the need for economic salvaging and development in the hard-hit steel industry area of the southeast side of the city.

Mr. **Fitch**. Thank you, sir.

The **Chairman**. Thank you very much, Mr. Fitch. I think you, in your testimony, point to the fact that there are some partnerships between private sector and public sector that have been beneficial for economic growth in certain places in our country. Also that the President's budget would, in effect, break those partnerships as a result of the red ink. You said that is not good for solving the ultimate problem of economic growth.

Thank you very much for your testimony. The entirety of it will be submitted for the record.

The Chair calls on Mr. Russo to introduce our next witness.

Mr. **Russo**. Mr. Chairman, it is indeed a pleasure for me to introduce to the committee a mayor in one of the villages that I represent. He is the president of the Village of Homewood, located in southern suburbs. I have known Mr. Hoffman for many years. We worked together closely when I had only a small part of his village, and I now have a major part of the Village of Homewood.

It is a pleasure to have you here, and I look forward to hearing your testimony.

The **Chairman**. We welcome you here, and your entire testimony will be submitted for the record.

STATEMENT OF MANNY HOFFMAN, VILLAGE PRESIDENT, VILLAGE OF HOMEWOOD

Mr. **Hoffman**. I would like to introduce Beth Rule, who will assist me in answering any questions you might have. I am the president of the Village of Homewood, located in the southern suburbs of Chicago. I want to express my thanks to the House Budget Committee for this opportunity to address you. I would like to note that as I address the committee, I will be doing so not only as a mayor, but also as a member of the South Suburban Mayors and Managers Association and will, therefore, be addressing many items which actually go beyond the scope of my own community.

I will begin by saying that the communities in the southern suburbs are some of those worst hit by the change in the U.S. industrial society. We have seen plant closings and job loss in the thousands in this area. Our community saw three major closings with over 1,000 jobs lost in 1 month's time. Our area can simply not absorb these losses. We have not had a large increase in the population base and the revitilization that is occurring in many other areas, but we are actively pursuing economic development and redevelopment in our area.

In this light, unfortunately, the proposed 1987 budget will slow and possibly kill much of our development activity.

One key item which must be provided to attract business is services. We have prided ourselves on the quality of services we provide in this area. Despite reduced tax bases in many towns, we have continued to make this area a choice place to work and do business. With the deletion of revenue sharing from the 1987 budget, many of the communities in the area will simply not be able to provide these basic services or will do so at a much reduced level.

The city of Blue Island, recently hurt by the national insurance crisis, has maximized all sources of local revenue. With the loss of revenue sharing, they will have to reduce their police and fire staff by approximately 25 percent.

The villages of Midlothian, East Chicago Heights, Markham, Phoenix, Posen, Robbins, Steger, and others report similar cuts to actual basic services. Many other communities within the area have, as my own village, Homewood, used these funds for needed capital improvements. Many of our communities are older, and we now face the renewal of our towns in much the same way as older cities. Revenue sharing has been vital to us in making these needed public improvements.

Likewise, the newer communities must face the initial development costs also.

I would also like to point out that the Federal Government is also not without its demands on local governments. My community is a case in point where waste water treatment is concerned. Federal standards have been set for us to meet. Now very few dollars are available to meet those demands. Yet EPA still says that we must meet their standards. Revenue sharing has helped in the past to fill those gaps where funding has not met actual costs of projects to meet Federal standards.

Another area where the southern suburbs will be especially hard hit is the Community Block Grant Program. The southern suburbs have been in partnership with Cook County in an urban county program for many years. In those years, substantial portions of the county's community development funds have found their way into the southern suburbs. Many needed projects, from housing rehabilitation and other improvements, have occurred where they would not have been possible prior to the CD program. While this program will not be discontinued, its curtailment will seriously hurt the economic redevelopment of this area. Not only will the communities not receive the benefits of the funds, but the area will also lose the construction jobs which these funds have furnished in the past.

Likewise, we have 15 UDAG eligible communities in this area. Many have just begun to realize the revitalization potentials this program provides. Unfortunately, before we can use it, it will be eliminated in the 1987 budget.

Finally, I would like to express some concerns related to the proposed 1987 budget for transportation. Others will address the transit issues today, so I would echo their concerns and use my time to address the road problems. It appears that a whole new approach is being proposed to replace the current program. While this block grant approach may have long-term merit, I am concerned that this concept does not provide for an orderly equitable distribution of funds, nor does it provide for local input in relation to priority development.

In the area of highways, the northern Illinois area has conducted one of the most successful municipal-county-State-Federal road construction partnerships in the country. My community has just benefited from this program in the widening of a major east-west thoroughfare within the community. Additional sections of road improvement within and out of the community are planned.

It is my concern that the current proposal would dismantle the current FAU process with no assurance of a viable replacement. We now have an excellent format which assures local involvement in the decisionmaking process. I urge that before any changes are made to that format that their effects be thoroughly analyzed.

This has been a successful program. It has been a program which has helped to improve the national economy. I question whether it should be changed. I also question that in light of an estimated need of $494 billion highway, $27 billion airport, $56 billion railroad, and $6 billion waterway and port improvements, if we can afford to cut this budget.

While I, too, recognize the need to reduce the Federal deficit, I question the relative importance of cuts in above programs to their effects not only on the communities involved, but also on the impact on the national economy. If we are deprived of the tools to revitalize and maintain the economy of our communities, I question whether these cost saving measures will have reduced the budget or set us up to make much more costly investments in the future. In the name of reducing the overall deficit, we may save a few dollars only to spend many more to correct the problems we have created.

Thank you for the opportunity to address you this morning and thank you for your interest.

[The prepared statement of Mr. Hoffman follows:]

PREPARED STATEMENT OF MANNY HOFFMAN

Good Morning. My name is Manny Hoffman. I am the president of the Village of Homewood located in the southern suburbs of Chicago. I want to express my thanks to the House Budget Committee for this opportunity to address you. I would like to note that as I address the committee, I will be doing so not only as a mayor, but also, as a member of the South Suburban Mayors and Managers Association and will, therefore, be addressing many items which actually go beyond the scope of my own community.

I will begin by saying that the communities in the southern suburbs are some of those worst hit by the change in the United States' industrial society. We have seen plant closings and job loss in the thousands in this area. One community saw three major closings with over 1,000 jobs lost in 1 month's time. Our area can simply not absorb these losses. We do not have that large of a population base and we are not seeing the revitalization of our area as is occurring in many other suburbs.

However, my purpose is not to bemoan our current status, but we are actively pursuing economic development and redevelopment of the area. In this light, unfortunately, the proposed 1987 budget will slow and possibly kill much of our development activity.

One key item which must be provided to attract business is services. We have prided ourselves on the quality of services we provide in this area. Despite reduced tax bases in many towns we have continued to make this area a choice place to work and do business. With the deletion of revenue sharing from the 1987 budget many of the communities in the area will simply not be able to provide these basic services or will do so at a much reduced level. The city of Blue Island, recently hurt by the national insurance crisis, has maximized all sources of local revenue. With the loss of revenue sharing they will have to reduce their police and fire staff by approximately 25 percent. The villages of Midlothian, East Chicago Heights, Markham, Phoenix, Posen, Robbins, Steger, and others report similar cuts to actual basic services. Many other communities within area have, as my own village, Homewood, used these funds for needed capital improvements. Many of our communities are older and we now face the renewal of our towns in much the same way as older cities. Revenue sharing has been vital to us in making these needed public improvements.

Likewise, the newer communities must face the initial development costs of infrastructure.

I would also like to point out that the Federal Government is also not without its demands on local governments. My community is a case in point where waste water treatment is concerned. Federal standards have been set for us to meet. Now very few dollars are available to meet those demands. Yet EPA still says that we must meet their standards. Revenue sharing has helped in the past to fill those gaps where funding has not met actual costs of projects to meet Federal standards.

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Thank you for the opportunity to address you this morning.

The **CHAIRMAN**. Thank you very much, Mr. Mayor. How large is your jurisdiction, your city?

Mr. **HOFFMAN**. Homewood is 20,000 people.

The **CHAIRMAN**. What about the other mayors for whom you are speaking today?

Mr. **HOFFMAN**. We go from a community of 6,000 to communities of 40,000 in Chicago Heights. Total of 550,000 people.

The **Chairman**. Let me ask you a question. You talk about the loss of revenue sharing and what that will mean. Will it mean reductions in your police and fire department?

Mr. **Hoffman**. In some cases, it is going to be a problem. Some of the towns have used their revenue sharing for their general budgets, and so police will have to be reduced. Some of the communities have had ongoing programs.

In our community alone, some of the services we funded out of revenue sharing, some of the funds we give to other than our village funds will have to be cut off this year.

The **Chairman**. But you do fund police and fire from some of those funds; is that correct?

Mr. **Hoffman**. Some of the communities do; yes, sir.

The **Chairman**. Last week the President said that he was going to be eliminating some horse-and-buggy programs. Would you categorize revenue sharing and UDAG's as horse-and-buggy programs?

Mr. **Hoffman**. No, I would not. I would say this is a very essential program to many communities, not only in the south suburbs, but throughout the State of Illinois.

The **Chairman**. Well, in light of the fact, Mr. Mayor, we have got these deficits created by fiscal policies that have gone wild, and we have got to make reductions. The President is suggesting over 40 some reductions. Some have counted up to almost 100.

How do you suggest, as one who has to deal with budget limits, we might approach this problem in light of the graph there which shows you some of the priorities as expressed? How do you think we ought to approach this problem at the Federal level? What suggestion would you give us, as an executive, as to how we might be able to reduce these deficits and at the same time, as you point out—and I think rightly so—meet the needs of partnership with local government?

Mr. **Hoffman**. That is a great question. I only work with a small budget of $10 million for my community, and I really, when we get into the large numbers that you are dealing with, I don't know where the cuts should be made, but I have met Saturday morning with 37 mayors from our communities, and revenue sharing is not one of the cuts that we want to see made. There are highway programs. I am in a village that has a half a highway completed, and, Chairman Gray, if I don't get funds, 183d Street, which is a major highway in my community, will have one-half completed and the other one-half of the highway going through the community not completed.

The **Chairman**. So, when the President said where we are going, we won't need any roads, that rings a bell with you?

Mr. **Hoffman**. It rings a bell clearly.

The **Chairman**. One of the things we are going to have to face, Mr. Mayor, even though we may be talking about some more zeros than you are—you are talking about $10 million, we will probably add about six or nine more zeros to it—we do have to reduce these deficits.

Let me ask you a question. What if Congress took an approach that, rather than eliminate a program like UDAG, we did something similar to what we did last year. We froze the funding level at the 1986 level, so in 1987 the community got exactly what it got in 1986 for 1987. In some cases through prioritizing made reductions of 10, 15, 20 percent in programs that perhaps did not have as significant a meaning? Would that be a preferable approach?

I know that you would like to have a 10-percent increase in revenue sharing. I know you would like to have a 10-percent increase in UDAG's. The reality is that that is not in the ballgame. How does that sound to you as a mayor, and how do you think your own mayors would respond to an approach like that which could perhaps reduce the deficit but at the same time maintain some medicum of partnership between Federal and local government?

Mr. **HOFFMAN**. I would always say something is better than nothing, and if we were to get the same funds that we got last year, it would really help in the small communities that we service, and Congressman Russo knows that we have had desperate problems in our Harvey area with Arco closing, Wymann Gordon closing, and seven other plants closing. We need money, and some of the revenue sharing is being used for economic development. We are hard hit in the south suburban area, and we have to create new jobs and new plants coming in.

The **CHAIRMAN**. Two last questions. Have you estimated or your staff estimated how much would your city, Homewood, lose if the President's budget, as is, was implemented?

Mr. **HOFFMAN**. In revenue sharing?

The **CHAIRMAN**. Just in all programs.

Mr. **HOFFMAN**. We haven't done that, but I can tell you that the last time—we have a May 1 budget that will be coming up in May—that I met with our village manager just the other day, and we are in the red already. It is the first time that our community has been in the red since I have lived there for 23 years.

The **CHAIRMAN**. What do you attribute that to?

Mr. **HOFFMAN**. The programs, cutting of programs.

The **CHAIRMAN**. The President claims we are having great economic growth. What do you attribute that to?

Mr. **HOFFMAN**. I attribute it to the fact revenue sharing will be cut off. Funds will have to go from other sources. We have had elimination of our county assessment. That has gone down. The equalizer has gone down. We have many problems.

The **CHAIRMAN**. I would be very much interested if you could send to the committee, as you get a chance to look at the budget, exactly what the exact number would be dollarwise to Homewood.

[At the time of printing, the information was not supplied.]

The **CHAIRMAN**. The next question I would like to ask you is, if all of these things went into effect without you knowing exactly what the dollar amount is, what would you have to do in Homewood?

Mr. **HOFFMAN**. What cuts would we have to make?

The **CHAIRMAN**. No; what would you do about it? What would you do about the loss of revenue sharing? What would you do about the loss of UDAG's?

Mr. **HOFFMAN**. We would have to put in some new taxes. We are not a home rule community, so we have problems in what we can do. We are looking at the possibility of entertainment tax at our theaters, a hotel tax, anywhere we can find some extra dollars.

The **CHAIRMAN**. How about property tax? You can't do that?

Mr. HOFFMAN. We are almost at our limit now on property tax, so there is no place to go. We are looking at a utility tax, which we will not put in, but other communities have gone to. But this is just taxing your residents over and over again.

The CHAIRMAN. So, you could not afford to lose those services. Would you have to try to replace them, and would you have to come up with some pretty aggressive taxes?

Mr. HOFFMAN. That is right. I think everyone in the south suburban area and all mayors are committed to the fact that we do not want to cut services. This is what makes people come to our area, the services that we guarantee them.

The CHAIRMAN. Isn't this bringing Government right down to the local level, out of Washington, right there on Main Street and letting people make those decisions themselves? How do you feel about that proposition? Because there are those who say that is what has got to happen here.

Mr. HOFFMAN. We have talked to many of our constituents and I don't think that they are getting the right reading because our constituents are not, do not want higher taxes. They want us to continue the services, but at the same level without raising the taxes, and I don't know where this other is coming from.

The CHAIRMAN. Do you think that applies also to the Federal level, they want the same thing out of the Federal level?

Mr. HOFFMAN. Yes; they want the same services out of the Federal level.

The CHAIRMAN. Same services and no revenues.

Mr. HOFFMAN. That is right. No increase in taxes. It is a good trick if you can do it.

The CHAIRMAN. Yes; that is basically what I said several years ago when there were those who said we are going to balance the budget, reduce revenues, tax breaks, and at the same time raise defense spending. I said, Boy, I want to meet that person who can do it, because they are going to be God, and, of course, it hasn't happened yet.

I yield to the gentleman from Illinois, Mr. Russo. I thank you for your very candid answers, Mr. Hoffman.

Mr. RUSSO. Thank you very much, Mr. Chairman.

Mr. Hoffman, it is great to have you here and have you testify on behalf of the South Suburban Council of Mayors. The South Suburban Council is made up of Democrats, Republicans, independents. It is not any one slanted group dealing with one particular political spectrum. It is composed of every different type of party that we have.

Let me just say that in your community, we are basically talking about middle-income families.

Mr. HOFFMAN. That is right.

Mr. RUSSO. These are families who are strapped already, and if they wanted the continued services, you are saying that the only way you could give them is to come up with some innovative way of raising taxes. Even though they don't want that you would have to do it if you wanted to continue services.

Mr. HOFFMAN. That is true.

Mr. Russo. The President has asked the local governments to shoulder a bigger burden. Do you think he has given them the tools necessary to take on the bigger burden?

Mr. Hoffman. At this point, to be honest with you, and you know I am as I talk to you all the time, I don't think we have the tools to do the job. I am concerned about the fact that some of these cuts will directly affect some of the programs that we now have in place, the senior citizens programs, the counseling programs, programs we now have in place.

We are in a bedroom community, as you know. People take the train and go to Chicago and work and then come back. We don't have a lot of industry in our area, in our community. I think we need more help out of Washington.

Mr. Russo. Manny, let me just ask you a couple other questions. You have this problem with the Federal Government through its EPA standards requiring you to do certain things in your community, yet they are not giving you the funds to do it. You have a problem with 183d Street and a few other roads in town, and while they have encouraged you to apply for the funds, now through rescissions and deferrals they want to take the money away from you.

You have other infrastructure improvements that you need to do because, again, as you said, Homewood is getting to be an older city and, it is not of the magnitude of Chicago, it has basically some of the same problems. Assuming all this happens, how is Homewood going to pay for all this? How are you going to meet the EPA standards and finish that road at 183d Street which is three-quarters of the way done already?

Mr. Hoffman. That is a good question. We have looked at a lot of ways of various funds. We cannot go by EPA rules if we don't have the money to fund our bonds to do the improvements they want.

We want to hook up to Thorn Creek sanitary sewers. We cannot do this when the Federal Government tells us one day they are going to give us 70 percent and next day tells us they are going to give us 55 percent.

We just don't have the funds to complete this yet. EPA says you must complete it or you are in violation and cannot build any new buildings, cannot have any new housing. You can't do this. It is impossible.

It is just as if you are playing a cat-and-mouse game; 183d Street is a typical example. We have the whole western section of this road completed and we need the funds to do the eastern section.

Mr. Russo. The eastern section is all dug up as I recall.

Mr. Hoffman. A good part of it. We will go for a four-lane highway which is a major highway to a two-lane highway and we need that four-lane highway to come all the way through town.

Mr. Russo. Let me just close by saying that there are reasons why the cuts are so large under the President's budget. As Congressman Savage always says, Gramm-Rudman is better than the President's budget because at least in Gramm-Rudman, as bad as it is, you will get an across-the-board type of cut where defense will pay its fair share.

But if you take the figures that have been given to us of a potential budget deficit of about $190 billion, and we have to get down to $144 billion under the guidelines, you almost have to cut about $46 billion to do that. To cut $46 billion when at the same time you are increasing defense spending $34 billion tells you why in the President's budget he cuts so much out of the domestic side of the budget. He has to make up almost $70 billion in cuts in order to give a $34 billion increase in defense.

So that is why the programs that affect you aren't just cut as the Gramm-Rudman guidelines talk about—4 percent or 5 percent across the board. When you give defense a hefty $34 billion increase, which is 12 percent over last year's numbers, somebody who would normally take a 4-percent cut has to make up a big difference.

That is the reason why we are out here trying to find out in the local communities, no matter who represents you, if you have the same problems that we are hearing about in other parts of the country. It is obvious our community is going to suffer some very serious infrastructure problems. It is one part of the Federal Government that works well and unfortunately it is one of the things that is going to be cut.

Mr. **Hoffman**. We appreciate your support. The 37 mayors in Southside appreciate your support of revenue sharing. I don't know what the answer is.

You gentlemen certainly have something—I have been listening here to all the testimony and you certainly have a lot of things to go back to Washington with, but as one mayor, all I can tell you is don't take it from me, take it from someone else, because we and all the other mayors say there must be somewhere else to get it from.

It is a situation that won't go away, but it is something that has to be addressed. We need all the money we can get.

Mr. **Russo**. You have been cut over the last 5 years anyway under his budgets. It is not as if this were the first round of cuts.

The **Chairman**. The chairman recognizes the gentleman from Illinois, Mr. Savage.

Mr. **Savage**. Only one question. As leader with the other south suburban mayors, do you get the sense that the mayors realize that you cannot possibly not cut the programs that are so essential to you if you are going to continue to increase the defense budget, indeed, if you are not going to even cut it, do the mayors then—because obviously there must be—we can't do both in Congress, we can't save those programs on the one hand and increase defense by $34 billion again on the other?

The same are hard choices we face. How do you find the mayors feel about the arms race and this continued increase in defense portion of the budget?

Mr. **Hoffman**. I think we are all concerned with the defense budget. I think, though, that most of us feel that geographically it really does not concern our own community right now. Our basic concern is what are we going to have when it finally trickles down to our community? What are we going to have to work with?

Mr. **Savage**. Do you realize that they are connected?

Mr. **Hoffman**. I realize what you are saying, yes.

Mr. **Savage**. That the increase is going to reduce what trickles down?

Mr. **Hoffman**. Decrease it and I guess there is one solution to the whole thing that we all seem to miss is the raising of taxes to help these programs.

Mr. **Savage**. That would be even inadequate because you would eat up any tax increase with a $34 billion increase in defense. What I am really trying to get at is, is there any support among the mayors, support for those of us in Congress who favor stopping the arms, this tremendous escalation in defense costs because, if not, you can expect very little because it won't be there.

We will fight for it, but it will be impossible because you can't do it without an increase, continued increase in the deficit that all of us know would be disastrous. So I am trying to say you are concerned. Is that positive, negative, or neutral?

Mr. **Hoffman**. I have a concern about both the defense budget and my own constituency and I don't know what the answer would be to your question. I am certainly concerned as everyone else is and whether we have to take it from here and bring it over to here, I think somewhere along the line some decisions, hard decisions, are going to have to be made and, gentlemen, we are electing you to make those decisions and whether or not you have our support I think Congressman Russo knows the South Suburban Mayors Association is made up of 37 communities, both Republican and Democratic mayors.

I am a Republican and I certainly support the people in our Congress that have to make those difficult decisions.

The **Chairman**. The Chair now recognizes the gentleman from Montana, Mr. Williams.

Mr. **Williams**. Thank you, Mr. Chairman. Mayor, how long is your term?

Mr. **Hoffman**. For 4 years.

Mr. **Williams**. Are you in the middle of this term?

Mr. **Hoffman**. I am at the beginning of it and it does not look too bright ahead.

Mr. **Williams**. Yes, it looks like a long road from here. Are you in your first term or second term?

Mr. **Hoffman**. No; I have been trustee for 8 years, and now am elected.

Mr. **Williams**. I understand you to say that you are a member of the Republican Party?

Mr. **Hoffman**. Yes.

Mr. **Williams**. Are the races partisan there? Do you file by ticket?

Mr. **Hoffman**. It is an independent race. It is not a Republican-Democrat. It is independent.

Mr. **Williams**. How many people in Homewood?

Mr. **Hoffman**. About 20,000.

Mr. **Williams**. Given the obvious importance of places like Philadelphia and Chicago, the fact is that America lives in Homewood. I come from Montana. Our largest city, I guess, is probably 90,000, and we have a lot of towns just about the size of Homewood. That is where America lives. With all respect, they don't live in Chicago and New York. For 50 years the towns and cities in Montana have found that the Federal Government, except in some instances which are relatively minor, such as overregulation by the EPA, is a good partner. And this has not been, at least with regard to the Montana connection to the Federal Government, an unwilling partnership.

We find that we profit by this relationship, that our people have done better by it, that, in fact, for 50 years now America has ticked like a fine watch. We think in a large measure that this is because of the partnership. Now, I only mention that because I heard you say something that my small town constituents, mayors and others, say when they come to Washington, particularly in these past 4 or 5 years.

They hang their head a little bit and say, I know I am asking you not to cut me. I am asking you to cut somebody else. And they are almost apologetic for saying this. For the life of me, I don't know why. I understand the feeling, but I don't know why suddenly people who have benefited from a meaningful partnership would suddenly apologize for asking that the partnership continue and that things that work continue to be funded.

Yet we have come to a situation in America where we are all apologizing to each other because our grandmother does not want to get kicked out of the nursing home or because we want to get on Amtrak which is the only way to get out of town. We want to get on the train and we are apologizing for that. I think this is wrong.

I think people in Washington, DC, ought to apologize for putting these people in that position, be they Republicans or Democrats. I say that with apologies to Philadelphia and Chicago.

Mr. SAVAGE. Mr. Chairman, if I may make an observation. I always wondered why America taxed me in these larger cities so much and gave us so little in return and my good colleague from Montana has just cleared that up for me and pointed out that America is not in the cities. You are right. It certainly isn't.

The CHAIRMAN. I yield to the gentleman from Illinois, Mr. Evans.

Mr. EVANS. Thank you, Mr. Chairman. I just want to thank you, mayor, for coming and confirming something that I thought we had Mayor Washington earlier state that what impact Gramm-Rudman and the President's budget would mean for his city. I know that is now true for your suburban city as well and I can tell you as a downstate Representative representing both larger and smaller cities, it is true concerning their needs we have a city in Monmouth, IL which is losing its Wilson food plant and the mayor of Monmouth, also Republican, Pat McManus, came out to Washington to get some assistance through UDAG for this year to help maintain the 700 jobs in that city. He was told that all UDAG funding is frozen and with the President's budget it would even rescind whatever is remaining.

Obviously, if those 700 Americans lose their jobs, they are not going to be paying taxes, they are not going to be paying into Social Security and they are probably going to be drawing unemployment benefits they deserve when they are laid off. If that is happening in Monmouth, and you indicated there were some plants closing down in the suburban areas, as well that is not going to help our deficit either.

So I appreciate you making your comments and if you would like to add any comments to that, I will be happy to hear them.

Mr. **Hoffman**. I think you are correct in your statements. Don't leave us with any half-finished projects. That is what you are going to do. You are going to leave the small town mayors with half-finished projects and we do not have the funds to complete those projects.

The **Chairman**. That would be terribly wasteful, wouldn't it?

Mr. **Hoffman**. That is right.

The **Chairman**. Let me also add my voice to Congressman Evans' voice thanking you for your testimony. I am just sorry that we have you at this point in the testimony because I think it is important for the big city mayor, small city mayor here testifying before the House Budget Committee. That is why we came out here outside of Washington to provide opportunities for people bipartisanly, you from the Republican ranks, Mayor Washington from the Democratic ranks, saying what is going to happen to their community. Now we can get a better idea as to what we ought to be about back in Washington, DC, when in March we go to marking up the budget.

I want to thank you for your candor and your frankness as you have shared with us your problems and what you think we ought to be doing. Thank you, Mr. Mayor.

Mr. **Hoffman**. Thank you for coming up.

The **Chairman**. We are going to have a slight change in the order of appearance. We are going to ask Dr. Manford Byrd of the Chicago Board of Education if he would come and share with us very quickly his testimony.

We have the testimony of Dr. Byrd who is the general superintendent of schools for Chicago. It will be entered into the record in its entirety.

I would ask you to briefly summarize it so we can ask you a few questions. Dr. Byrd has to leave due to another commitment, but we wanted to ask him a few questions about the impacts upon education in Chicago as well as some potential solutions that we would like to bounce off him.

So, Dr. Byrd, if you could just give us a 2-minute summary, which would allow us to ask any questions. Thank you.

STATEMENT OF MANFORD BYRD, JR., GENERAL SUPERINTENDENT OF SCHOOLS, CHICAGO BOARD OF EDUCATION

Mr. **Byrd**. Mr. Chairman, Members of the House, thank you for giving me the opportunity to address you today. In the past, this committee has recognized the vital importance of education to this Nation. I commend you for this concern and I am confident that it will continue.

It must continue, because the future of America is its children. The continued survival, growth, and prosperity of this Nation will depend upon how well they are equipped to assume their roles as productive citizens. This is precisely the mission of the schools of this Nation: to prepare our children for successful lives.

There is much concern today about reducing Federal deficits. We support the efforts of Congress to bring them under control. What we do not support is the automatic mechanism of Gramm-Rudman-Hollings. That process of across-the-board cuts in programs hinders the Congress from performing one of its most important responsibilities: To determine the values and activities which are in the best interests of this society. In a large measure, your spending decisions will determine the character of this Nation.

In his State of the Union Address, the President described a "rising America—firm of heart, united in spirit, powerful in pride and patriotism." His vision of the future was bold and optimistic.

The President proposes to realize his dreams for America through his agenda for the future, outlining plans for balancing the budget, expanding the economic growth of the Nation, helping farmers, reforming welfare, improving health care, strengthening the Nation's defense while reducing arms, and supporting the expansion of freedom throughout the world.

There is one essential element needed to realize this dream: Quality education for all our children. President Reagan's vision for the future cannot happen without an educated citizenry.

America's economy will not flourish without educated citizens.

America's defense will not be strong without educated citizens.

America's families and communities cannot be the Nation's moral core without educated citizens.

We will not preserve our freedoms, we will not reach for the stars, we will not turn today's dreams into tomorrow's realities unless we make certain that every boy and girl in our schools is given a good education.

In 1983, the National Commission on Excellence in Education sounded the fire bell on a national crisis. Its report, "A Nation at Risk," saw us drowning in "a rising tide of mediocrity that threatens our very future as a Nation and a people."

According to the Commission, "we have, in effect, been committing an act of unthinking, unilateral educational disarmament."

In part because of this report, many States, including Illinois, and many local school districts, including Chicago, have moved to reform and revitalize public education at all levels.

What has been the response of the President and the Congress to the need for reform? Although President Reagan drew attention to the report, there has been no effort by the Federal Government to improve public education. No funds have been committed to stemming the tide of mediocrity.

During the present administration, Federal funds for education have increased only slightly. Indeed, when you take the effects of inflation into effect, the Federal commitment to education has shrunk significantly.

For example, in Chicago we received $182 million in Federal support for education in fiscal year 1980. For fiscal year 1987, we project $202 million. Adjusted for inflation, this is equivalent to about $144 million, a loss of about 21 percent.

If Gramm-Rudman-Hollings is allowed to function without some correction in the Federal budget for fiscal year 1987, it can be expected that the Chicago public schools will lose more than $15 million for the 1987-88 school year. Such a cut would be devastating for our students most in need of help. We would lose over 400 teachers and would have to withdraw compensatory educational services from nearly 16,000 students.

Federal support for the Nation's children has been diminishing. Unless Congress takes action now, the schools will lose even more in the years ahead, while you attempt to balance your budget.

I know that the President's budget proposals for fiscal year 1987 do not reduce the funds provided for the ECIA chapter 1 program, which is targeted for the low-income communities. However, I must protest the inclusion of President Reagan's educational voucher plan in this program. I am quite aware of the arguments made in favor of the voucher: Offering parents choices, increasing competition for students and thereby improving education and giving low-income families greater access to private and parochial schools.

In my judgment, the voucher plan is a cruel disservice to the children of this Nation. It is simply a device to circumvent constitutional restrictions on Government support of religious institutions, and to permit Federal funds to be used to support private schools. It would permit private and parochial schools to skim off the better students from the public school systems, since these institutions take only the students they choose. At the same time, we will be losing students and therefore losing State revenues. This will leave us less able to improve our schools, even while we would be left with the most educationally needy youngsters.

I urge this committee to reject the voucher plan, and—for many of the same reasons—the idea of tuition tax credits for private and parochial school.

Whatever the virtues of the Gramm-Rudman-Hollings Act, its effects on education will be severe. The act exempts 73 percent of the budget from reductions, forcing defense and domestic discretionary programs to bear the burden. These two areas are to share the cuts equally, but—since defense appropriations are much larger—the domestic programs are being disproportionately reduced. Eight percent of the Federal budget will have to absorb half of the budget cuts. Appropriations for education may be reduced by as much as one-fifth.

In fact, the President's budget proposes a 12-percent increase in the budget for defense, while reducing education by 9 percent.

Federal support for education has historically been directed primarily at the areas of greatest need, the children of poverty. It is these children who will lose the most if Federal support to education continues to be reduced.

President Reagan wants to break the cycle of poverty and waste in what he calls "the welfare culture." In our urban schools, we are intensely aware of the tragic consequences of poverty and the breakdown of the family structure. Every day our teachers confront the sinful waste of human spirit and potential.

Therefore, we support the President's call for a strategy to overcome this waste. But let me reiterate that no plan, no strategy will be successful in the long run unless it guarantees to the children of poverty a good education. Young men and women cannot get and hold decent jobs if they lack a good education. And it is the lack of jobs that—more than any other factor—has led to the breakdown of families and the vicious cycle of poverty across generations.

Quality education is one of the best investments this Nation can make. It is one of the best ways to reduce the high cost of welfare and other social support programs. The cost over a lifetime for unemployment compensation, welfare, crime, and lost taxes from reduced earnings is enormously greater than the cost of 12 years of good schooling.

The schools are the key to the Nation's future. If we give our children excellent educations, they can realize our brightest dreams for their tomorrows. But if we continue to reduce our national commitment to education—particularly to the education of our children from poor families—our dreams will turn to nightmares.

I urge this committee to show its wisdom by preserving education, even while reducing the deficit. We have entrusted our future—and the future of the American children—to you, our representatives. I am confident that you will not disappoint them.

[The prepared statement of Dr. Byrd follows:]

PREPARED STATEMENT OF MANFORD BYRD, JR

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The CHAIRMAN. Dr. Byrd, last week the President said we are on the move; there is a bright future. He talked about getting back to the basics in education and he even implied it was his administration that got education moving back to the basics in America. He talked about scores on SAT's, et cetera, and virtually took credit for that.

Now you are here telling me that that is not the reality of his budget? Do you believe that the President's policies over the last 4 years have contributed to the higher scores that he claimed in his state of the Union, and do you agree that he is not investing in education as he claimed in the state of the Union?

Mr. BYRD. I don't think his policies have contributed to the gains at all. As a matter of fact, there are those who say that because of an investment years back with the ESEA programs before they became ECIA chapter 1, is the reason we might see some upturn in the SAT and ACT scores. I certainly think that I know that for us the policies over the last 4 or 5 years have not been helpful, indeed they have been harmful.

The CHAIRMAN. Would you say that his budget reflects the message that he gave in his state of the Union on education where he talked about education?

Mr. BYRD. It didn't seem to me he was talking about a bright future. At the time as I listened, I thought of many of the youngsters in our system who, if we carry out the requirements of that budget, as I just indicated, would be devastated by it.

The CHAIRMAN. So despite the rhetoric at the state of the Union and education excellence, the reality is that there is a withdrawal of public support for achieving that educational excellence as you stated here?

Mr. BYRD. At the Federal level, yes.

The CHAIRMAN. I yield to the gentleman from Montana, Mr. Williams, who serves on the Education and Labor Committee.

Mr. WILLIAMS. Thank you, Mr. Chairman. Dr. Byrd, how long have you served as superintendent?

Mr. BYRD. Since March 25, 1985. However, I have been in the district for some 31 years.

Mr. WILLIAMS. Did you teach?

Mr. BYRD. I was a teacher, a master teacher, assistant principal, principal in elementary school, principal of a high school, and many other positions in the district.

Mr. WILLIAMS. This is good to know because we often hear from high places back in Washington that the Federal Government has been in the way of educational quality and equality in the United States and that, in fact, the current state of education is not as good as it should be. Many in Washington say that this is because of Federal interference, Federal inefficiencies, Federal regulation, and too much Federal money.

Now, you are right on the firing line, and have been there for three decades. Let me ask you just a couple of simple but specific questions. You were there before the Federal Government got very involved, as it has been these last 20 years, in financial assistance.

Mr. BYRD. That is true.

Mr. WILLIAMS. Did you see a difference when the Federal Government began to get involved? I know it took a few years to work out the bumps and fine tune it a little bit, but did you see a difference in the quality of what was being provided to the students after the Federal involvement increased?

Mr. BYRD. I saw a great difference after the Federal involvement in the way of materials, in the way of reaching youngsters earlier. We have been able to implement an exemplary program for prekindergarten-age youngsters in this system as a direct result of Federal involvement.

Finally, the State this year is getting into that act.

Mr. WILLIAMS. This is good to hear. Did the Federal bureaucracy follow through in a way that caused inefficiencies in the classroom or block the access of the teacher to the student?

Mr. BYRD. I am not aware of that, although I must admit that there were times when completing the papers that were required were a burden but not to the extent that the programs were not beneficial and useful.

Mr. WILLIAMS. As you know, the primary role of the Federal Government in education throughout America's history, but most particularly in the last quarter of a century, has not been one of trying to improve the quality of our schools but has been one of trying to open access to our schools for all people whether they be in a wheelchair, regardless of their color, creed, and so on.

Has that effort of the Federal Government to open the schools to everyone been a benefit to the youth of Chicago?

Mr. BYRD. It has been of some benefit, although you might know there has been a little debate recently with the Federal Government about the amount of support in expediting that process, but overall it has been helpful.

Mr. WILLIAMS. Finally, the budget cuts are coming down, and they are probably coming, frankly, to what tax can the schools turn to or what system of taxation. How do you improve your own financial situation when you lose the Federal dollar?

Mr. BYRD. I think we have to turn to the State for increasing its support. We are at the very limit of our taxing authority on the real property of this city in support of education. So we would turn to the State.

Mr. WILLIAMS. Are you likely to receive help there? Has the State been fairly helpful?

Mr. BYRD. Last spring there was an upturn in State support, and they plan to increase that support over the next several years. We are really depending on them to keep that commitment. I think we would have a lot of difficulty adding to that.

Our concern is to keep the State's commitment that was made last spring and the Governor's commitment that was made at a time we were having some difficulty. If we are able to do that, then I think we can go on.

I don't see them assuming any additional responsibilities at this point.

Mr. WILLIAMS. Thank you, Mr. Chairman.

Mr. Chairman, as you know, I have to leave to catch a plane, but I have appreciated being here and the good hospitality of the people of Chicago as always.

AVAILABLE

The **Chairman**. Thank you, Congressman Williams. The Chair yields to Congressman Savage.

Mr. **Savage**. Just a brief comment, Mr. Chairman.

I happen to have known Dr. Byrd for a number of years and certainly can commiserate, and I would hope that any who read this record will, because I am so aware of his great concern and commitment to the education of our young people and to his ability as so abundantly evident by how much progress he has made in the Chicago public school system despite the shortness which he has been the superintendent and for a man with that concern and evidently the ability to help our young people, to at this point have his hands tied and his feet shackled by his own Government is almost enough that should bring tears to the eyes of all Americans. Thank you, Mr. Chairman.

The **Chairman**. Thank you, Congressman Savage. Thank you very much, Dr. Byrd, for your testimony.

STATEMENT OF MICHAEL A. CARDILLI, PRESIDENT, CHICAGO TRANSIT AUTHORITY, ACCOMPANIED BY THEODORE WEIGLE, EXECUTIVE DIRECTOR, REGIONAL TRANSPORTATION AUTHORITY

Mr. **Cardilli**. I am Michael A. Cardilli, chairman of the Chicago Transit Authority. With me is Theodore Weigle, who is the executive director of the Regional Transportation Authority. I believe he will be giving testimony that Mr. Skinner would have been giving. What I would like to do is make one comment, if I may, before Mr. Weigel begins. I have been an American for 53 years and I have lived in Chicago. Was it a mistake?

Thank you very much, members of the committee, for coming outside of the Capital Beltway to take testimony from people out in the rest of America.

[Testimony resumes on p. 149.]

[The prepared statement of Mr. Cardilli follows:]

PREPARED STATEMENT OF MICHAEL A. CARDILLI

Mr. Chairman, I appreciate this opportunity to submit testimony to the Committee on behalf of the Regional Transportation Authority, the Chicago Transit Authority, the METRA Commuter Rail Division of the RTA and the Pace Suburban Bus Division of the RTA. I am Michael A. Cardilli, Chairman of the CTA, and I am submitting testimony to you today in my capacity as a member of the Board of Directors of the RTA. I am joined here today by Theodore Weigle, Executive Director of the RTA.

The RTA finances and oversees the public transportation system of the Chicago metropolitan area. This system operates throughout an area three-quarters the size of the State of Connecticut and has a daily ridership of 2.3 million, the second largest in the country. My testimony addresses the impact of the Administration's Fiscal Year 1987 Budget on public transportation in this region.

The Fiscal Year 1987 Budget proposed by the Administration has the admirable goal of reducing the federal budget deficit. We share this goal and -- bearing in mind previous reductions in funding borne by transit -- are also willing to accept fair and equitable restraint in mass transit funding.

The Administration's Budget, however, directs a disproportionate reduction in the programs of the Urban Mass Transportation Administration. Under the Administration's Budget, all transportation funding is reduced less than twenty percent, but mass transit assistance is reduced by two-thirds. Half of the total reduction in transportation funding would be absorbed by mass transit.

The two-thirds reduction in the federal mass transit program is achieved by reducing capital assistance by one-half and eliminating operating assistance. All transit assistance is eliminated -- except funding that is supported by the one cent-per-gallon motor fuel tax. Combined transit and highway funding would be reduced by one-half under the Interstate Transfer program, the transit element of which would be transferred to a trust fund administered by the Federal Highway Administration. The Administration also proposes an Urban Mobility Block Grant that would allow transit funds to be used for highway and transit improvements at the discretion of the recipients.

Assuming that a 4.3% reduction takes effect March 1st under the Gramm-Rudman-Hollings deficit reduction measure, the RTA is projected to receive $239 million in federal assistance in FY86. Under the Administration's Budget for FY 87, federal aid to the RTA would be reduced by $147.3 million. Operating assistance amounting to $58 million in FY86 would be eliminated and capital assistance of $181 million would be reduced to $91.7 million.

To accommodate this reduction in federal assistance, we must consider raising revenue from other sources or reducing operations and deferring capital maintenance.

An increase in local sales tax revenue of 40% or an increase in our State subsidy of 160% would be needed to compensate for the $147.3 million reduction in federal aid. Given that these sources of revenue were established only recently and after much controversy and given the State's and the region's financial constraints, it is very unlikely that additional public funding will be forthcoming. Neither the State nor local governments are prepared to provide public funding to compensate for the reductions in federal aid.

To maintain operations at current levels, a fare increase of approximately twenty percent -- not considering the loss of ridership -- would be necessary to compensate for the loss of $58 million in operating assistance. Transit fares in the region, however, are already among the highest in the nation and fare increases of five to ten percent take effect this month throughout the system. The growth in ridership that the system has enjoyed over the last few years would be reversed if such an increase in fares were instituted.

Were fares to be maintained at existing levels, substantial reductions in operations would be needed to compensate for the loss of federal operating assistance. Three-quarters of the weekday commuters to the Chicago central business district use the services provided by the RTA's three operating Boards and the region's economy is obviously transit-dependent. A substantial reduction in service would overburden the highway system and employees access to their jobs would be severely hindered.

The reduction of $89.3 million in capital assistance to the region would defer maintenance of the region's transit infrastructure, one of the oldest in the nation. Many of our structures and facilities date to the turn-of-the-century and a major part of our vehicle fleet is rapidly approaching the end of its useful life.

An investment analysis of the region's infrastructure is being conducted by a consultant, Booz, Allen & Hamilton. They have determined that the base level of investment needed to support continued operation of existing services to be $350 million annually over the next five years. Expansion of the existing system was not included in this analysis.

Under the Administration's Budget, the region would have available for capital investment $197 million from the federal formula and Interstate Transfer programs, as well as state and local sources. This funding is $153 million less than is needed to maintain the system according to the Booz, Allen analysis -- a shortfall that would result in the deterioration of our tracks, stations, vehicles and other capital equipment and facilities. As capital rehabilitation is deferred, operating maintance costs soar, beginning the downward spiral leading towards the system's collapse.

Lastly, Mr. Chairman, the reduction in Interstate Transfer funding essentially undermines the value for value trade-in agreement struck between the federal government and Interstate Transfer recipients when local interstate highway projects were withdrawn. In accepting the transfer offer and submitting binding concept plans for the substitute projects, state and local officials relied on the belief that funding would be made available in a timely fashion. In Northeastern Illinois, the Southwest Rapid Transit Line and other improvements are scheduled to proceed under the Interstate Transfer program. A reduction of Interstate Transfer funds will slow the construction of the Southwest Transit Line and the other improvements.

Mr. Chairman, given these detrimental impacts, and because of its inequitable treatment of mass transit, we oppose the Administration's Budget. In the past, this region has argued for increased transit spending, primarily to satisfy its unfunded capital needs. Nonetheless, recognizing the need for every individual, industry and interest to assist in the efforts to reduce the federal budget deficit, we support a freeze on transit funding at the levels provided this current fiscal year.

Mr. Chairman, I would like to make one additional point on behalf of the Illinois Public Transit Association.

Northeastern Illinois is not the only area in the state that would be adversely affected by this budget. Smaller communities in downstate Illinois depend heavily on operating assistance.

Cities like Peoria and Rockford with already troubled economies can ill afford property tax and fare increases. Both cities' high unemployment rates would be fueled with inevitable service cuts. Jobs as well as access to jobs would be lost.

Forty percent of the ridership in communities like Quincy and Galesburg are elderly. The survival of both systems and the resulting mobility they provide are in doubt without Federal operation assistance.

The Operation Assistance Program in conjunction with state and local assistance has enabled many communities in downstate Illinois to provide basic public transportation service. The continuation of this partnership is essential to preserve the economic and social benefits that acrue to cities with adequate public transportation.

The CHAIRMAN. Excuse me. It's Mr. Weigle? I want to apologize for mispronouncing your name.

Mr. WEIGLE. That is quite all right.

The CHAIRMAN. Thank you; I want to thank you for letting us know that we are welcome outside of Washington. There are some who think that we should not leave Washington, so I am glad to hear you welcome us.

STATEMENT OF THEODORE WEIGEL

Mr. WEIGLE. I recently joined the Regional Transportation Authority. I was the deputy general manager of Washington Metro, so I can fully appreciate those somewhat cynical jokes that refer to Washington as 40 square miles surrounded by reality. So we will forgive you all.

I have prepared testimony, Mr. Chairman and members of the committee, but I will summarize that and I believe that will be in the record, of course, so that will be sufficient. But we are sympathetic, certainly, with the deficit problem that the administration faces and the hard choices that you face in the Budget Committee However, we think, clearly, the administration's position on mass transit is a disproportionate blow to that important function in American cities. For all intents and purposes, if the administration's budget is adopted, it will literally zero out mass transit as we know it now. We think that would be terribly unfortunate.

The RTA is a billion dollar operating business. Its largest component, of course, is managed by Mr. Cardilli of the Chicago Transit Authority. It's a very, very big business; it's cost sensitive; it's sensitive to fare increases, and we cannot have a position where we willy-nilly have to go about making drastic changes in our budget to accommodate the uncertainty that the Federal budget is presenting to us. We will have several things to do if the administration's budget is adopted, and all are bad.

One, you would have to raise fares disproportionately, and just today the Chicago Transit Authority—or this past Sunday—instituted a 10-percent fare increase and likewise a fare increase was instituted by the suburban bus system and the commuter rail system. And if you increase fares too fast, as we found out in 1981, ridership drops off dramatically and in fact it never recovers.

The second bad thing that could happen by adopting the administration's budget is to defer maintenance, and we don't have to look too far beyond Philadelphia and Chicago and New York, and other large cities that haven't been fortunate enough to have brandnew transit systems, as Washington Metro is, to know what the ravages are of deferring maintenance.

The third bad thing that can happen is to defer capital spending. In cities such as Chicago that are old, that have made tremendous billion dollar investments in times even exceeding the Federal program, to basically turn a feedback on the needs of capital reinvestment in important institutions in such large cities as Chicago would be unfortunate, to say the least. The RTA is in the midst of developing a strategic plan. That plan identifies a need to spend about $350 million or more each year to stay abreast to protect the capital investments that we have already made in the system.

For the last half dozen years we have been receiving about $260 million [illegible] Federal funds and under the administration's budget, if it were adopted, that amount would drop to roughly $100 million a year. That is a threefold decrease in an urgent supply of capital money.

I will remind the committee that the Federal Mass Transit Program has been the only capital market that has been available to mass transit for capital investment. We do not have other markets that are normally available to invest in these kinds of public benefits.

Our position in regard to the 1987 budget is that we would propose and encourage the committee to again seek a freeze on the budget as we now have in fiscal year 1986. We think that is a prudent thing to do. It has reduced money, and I guess if you could characterize that strategy it's a more gradual process of readjusting to a need of reduced Federal spending than a drastic reduction that is proposed by the administration's fiscal year 1987 budget.

That, Mr. Chairman and members of the committee, summarizes the testimony which we have provided for the record, and Mr. Cardilli, of course, and myself, will be pleased to answer any questions you may have.

The CHAIRMAN. Mr. Cardilli, do you have anything you want to say?

Mr. CARDILLI. I would just like to comment we have been concerned in the Chicago area—and I got to speak for the region—about developing and continuing to develop the economy of the area. I think transportation is a very, very vital part of it. To decrease the revenues that are going to be coming into the region would adversely affect our economy and the well-being and health of the community is affected by it. So any cuts that are made by the Federal Government in this particular area has to realize the future is going to be in jeopardy as far as Chicago is concerned.

Mr. RUSSO [presiding]. I am glad you are only 53, and I am glad you are a Chicagoan and glad to have you as chairman of the CTA. Thank you very much. We really appreciate your testimony. We are going to do what we can to make sure the infrastructure of the city, especially the transportation structure, does not take such a severe hit as the President is requesting.

Mr. CARDILLI. We appreciate that because we know the committee is very serious about it.

Mr. RUSSO. Our next panel of witnesses would be a panel on labor issues. Paul Booth, Illinois area director, American Federation of State, County and Municipal Employees and Donald Jones, American Federation of Government Employees.

We will take your entire testimony for the record and if you would summarize it we would appreciate it. Identify yourself for the record, please.

STATEMENT OF PAUL BOOTH, ILLINOIS AREA DIRECTOR, AMERICAN FEDERATION OF STATE AND MUNICIPAL EMPLOYEES

Mr. BOOTH. Mr. Chairman, I am Paul Booth. I am the Illinois area director of AFSCME, American Federation of State, County and Municipal Employees. Our union represents approximately

60,000 employees who work for State and local government in Illinois. We represent the employees in the village of Homewood, 7,500 employees of the city of Chicago, too, and even in the village of Milan, with a population of 1,500. Based on our analyses of the administration's fiscal 1987 budget, we believe that if the President has his way Illinois private and public sector will be devastated.

Illinois lost 437,000 jobs during the 1981-82 recession, and has only regained 40 percent of those jobs in the last 3 years. In the manufacturing sector, we have only regained 11,500 of the 363,000 jobs lost during the last recession.

We, in Illinois, are working to turn our economy around. We realize that to compete in the 1990's and the next century we will need a modern intrastructure and an educated workforce. Last year, our State embarked on the Build Illinois Program which will spend $380 million this year on building and repairing roads, sewers, and public buildings. This year the Governor has pledged to increase State aid to elementary and secondary education by $250 million. The Governor has also pledged a similar 9.5 percent, or $118 million, increase in funding for higher education. President Reagan's budget cuts will pull the rug out from under our efforts and make it more difficult for us to pull ourselves out of economic stagnation.

With respect to taxes, the budget is an outright fraud. It's not a no-tax increase budget. It will require local tax increases all over the State that we will see taking effect next January 1 if it is adopted for the fiscal year starting October 1, and it will force the State legislature, I am sure you will see a special session in mid-November also to raise State taxes.

Thankfully, the Ways and Means Committee, Congressman Russo, through your leadership, had the guts to preserve the deductibility of State and local taxes so that that option, which is an undesirable one, won't be made doubly difficult for those local and State governments to face up to the real problems that they are going to be facing. These cuts alone would cost Illinois nearly $400 million next year. The President's budget also contains deep cuts in Medicare, Medicaid, and other health programs. In the last 4 years we have lost nearly $1 billion in cuts due to reductions in Medicaid and Medicare here in Illinois.

Cutbacks in Medicare and Medicaid have meant the hospital treats 4,000 more patients a year who are transferred from private hospitals to Cook County Hospital because of lack of insurance. That is over a 400 percent increase. And 35,000 Chicagoans are without shelter, homeless, and the administration is proposing to put a cap on Medicaid expenditures, which will increase the pressure on the facilities for the mentally retarded and mental hospitals, nursing homes which get Medicaid funds—pressure on them to release residents into unprepared communities, more homelessness, subhuman living conditions for those people.

And the cuts in higher education.

We are here at a university, a public university. Few of our members could afford to send their children to college without the programs that the President has targeted. Most of the students in the public universities avail themselves of these benefits. We find it hard to believe that in this technological age, with its demand for an evermore educated workforce, that the President is proposing to cut higher education programs.

Reagan claimed on Saturday that the cuts are only 5 cents on the dollar; $50 million out of $1 trillion, roughly. But when you have set aside defense, and interest, and Social Security, you are actually talking about $50 million out of $300 million, one-sixth, one-sixth of the funds for Medicare, Medicaid, and elimination totally of some programs. It's a deep and jagged incision in the belly of our economy.

We call on you to junk that proposed budget and make it possible for us to finish building 183d Street and all the other programs that the country needs.

[The prepared statement of Mr. Booth follows:]

PREPARED STATEMENT OF PAUL BOOTH

Mr. Chairman, my name is Paul Booth and I am the Illinois Director for the American Federation of State, County and Municipal Employees (AFSCME). Our union represents approximately 60,000 employees who work for State and local government in Illinois. Our members range from doctors to orderlies, from correction officers to social workers. We represent the of the village of Milan which has a population of 1,500 and we also represent 7,500 employees of the City of Chicago. We have locals in every region of the state and have members from every walk of life. This broad membership leads us to be concerned with both the fiscal health of our state and of its governmental subdivisions and the well being of its private economy, which generates the revenues that pay for the services performed by our members.

Based on our analyses of the Administration's fiscal year 1987 budget, we believe that if the President has his way Illinois private and public sector will be devastated. Despite the talk of recovery generated in Washington our State has never recovered from the last recession. President Reagan's proposed budget cuts will further delay the day of economic recovery in this State.

Illinois lost 437,000 jobs during the 1981-82 recession, and has only regained 40 percent of those jobs in the last 3 years. In the manufacturing sector, long the strength of our State's economy, Illinois lost 363,000 jobs during the last recession. We have only regained 11,500 such jobs since then, and the picture is only getting worse. Our State has lost 54,000 manufacturing jobs since March.

We in Illinois are working to turn our economy around. We realize that to compete in the 1990's and the next century we will need a modern infrastructure and an educated workforce. Last year our State embarked on the Build Illinois Program which will spend $380 million this year on building and repairing roads, sewers and public buildings. This year the Governor has pledged to increase State aid to elementary and secondary education by $250 million. The Governor has also pledged a similar 9.5 percent, or $118 million, increase in funding for higher education. Presidents Reagan's budget cuts will pull the rug out from under our efforts and make it more difficult for us to pull ourselves out of economic stagnation.

Our preliminary estimate of the impact of the President's budget on the State of Illinois is that we will lose a minimum of a half billion dollars in Federal aid. This is more than double the sum of money that the State Treasurer last month reported we had in reserve. As a result, there is no way the State could meet the existing commitments and maintain services without a sizeable increase in taxes.

The major losses of Federal aid would come from the elimination of General Revenue Sharing and the 65-percent cut in aid to mass tansit. These cuts alone will cost Illinois nearly $400 million next year.

In addition, the President has targeted the Community Services Block Grants, the Work Incentive (WIN) and the Urban Development Action Grant (UDAG) programs for immediate elimination. In the current fiscal year, Illinois will receive $16.5 in Community Services, $10.7 in WIN and $18.1 in UDAG funds. The President's proposal to eliminate WIN is particularly mindless and counterproductive in light of his state of the Union message which calls for getting AFDC recipients off welfare roles and onto payrolls. WIN has proven itself highly effective in doing just that as the labor Department's own studies prove.

Other proposed cuts would have similarly adverse effects on our state and its subdivisions. The President's budget would rapidly phase out the EPA wastewater construction grant program, from which Illinois local governments will receive an estimated $122 million this year to help meet Federal water quality standards. The President's proposal to cut one-sixth of the budget authority from Community Development Block Grants will cost the cities and counties of Illinois $25 million by fiscal year 1988. These cuts will, of course, come on top of the complete loss of $210 million annually in General Revenue Sharing funds. The loss of the General Revenue Sharing funds will guarantee that jurisdictions all over the State will have to increase their taxes and fees.

The President's fiscal year 1987 budget also contains deep cuts in Medicare, Medicaid and other health programs. Illinois AFSCME represents over 10,000 health care workers, and we have always had a special concern for these programs. From 1981 to 1985 the State of Illinois and its citizens have suffered nearly a billion dollars of cuts due to reductions in Medicare and Medicaid. Those cuts have already had a substantial impact on the health care of the less fortunate. At Cook County Hospital, where we represent over 1,000 workers, cutbacks in Medicare and Medicaid have meant that the hospital treats 4,000 more patients a year who are transferred from private hospitals. That is over a 400-percent increase between 1980 and 1984.

The homeless are another concern of ours. Today there are 35,000 Chicagoans without shelter. Yet the administration is proposing to end Medicaid as an entitlement program by imposing a cap on Federal expenditures. This will mean an estimated loss of $47 million to the State of Illinois. More importantly, this move by the Federal Government will increase the pressure on federally funded facilities for the mentally retarded, on mental hospitals and on nursing homes to release residents into unprepared communities. This will only result in more homelessness and subhuman living conditions for people who have no way of caring for themselves.

We would also be remiss if we did not protest the President's proposed cuts in higher education. Few of our members could afford to send their children to college without these programs. Most of the students in the public universities, where our members work, also avail themselves of these benefits.

We find it hard to believe that in this technological age with its demand for an ever more educated workforce, the President is proposing to gut our higher education programs. The President's failure to request a supplemental appropriation for Pell Grants to make up for the $215 million funding short fall and $154 million sequestered by Gramm-Rudman will drop 290,000 middle-income eligibles from the program and reduce awards for another 500,000 recipients with annual family incomes between $12,000 and $20,000. According to the American Council on Education, changes in the Guaranteed Loan Program would eliminate 619,00 students and may threaten the visibility of the entire program by discouraging lenders from participating in the program. Such drastic changes will play havoc with our entire higher education system and will have especially profound adverse effects on our State universities.

In conclusion, we believe that the Committee should reject the President's budget and expose it for the fraud it really is. The administration claims its budget is deficit reducing when in reality it is only deficit shifting. By leaving Pentagon spending and corporate loopholes untouched, while gutting aid to State and local government, the administration is cutting its deficit by exporting its fiscal problems to the State and local government. In short, the President in trying to balance his budget by unbalancing the budget of most states and thousands of local jurisdictions.

The President's budget is also a fraud because it claims that it doesn't increase taxes. The fact is that this budget will raise almost every American's taxes. The proposed $10 billion cut in and to State and local governments will inevitably lead to substantial increase in State income and sales taxes and in local property taxes and user fees to maintain even a minimum level of basic public services.

The budget is also a fraud because it claims to improve our private economy. After 5 years of the supply side experiment, it is time to pronounce it a failure. We are far less competitive today then we were 5 years ago. Our trade deficit is at record levels and last month the Labor Department reported that our productivity is declining. Is it any wonder that after 5 years of cuts in education, job and human services programs that our workforce is less productive? We urge this committee to not exacerbate our already difficult economic problems by further cutting education and job training programs. We urge the committee to reverse the declines of the last few years by realistically assessing our needs in education, infrastructure, health and other programs and funding these programs accordingly. We believe that we could begin to fund these programs at adequate levels if we eliminate wasteful Pentagon practices, force the Secretary of Defense to prioritize, and terminate the so-called investment incentives in the Tax Code that are little more than legalized tax evasion for rich corporations and wealthy individuals. At a time when the Pentagon is spending thousands of dollars on coffee makers and General Electric and dozens of other Fortune 500 companies pay no taxes, it is simply unconscionable that we should be denying hundreds of thousands of students a chance at a higher education, or creating policies which will dump thousands of helpless people out of institutions and homes and on to the streets.

We also urge the committee resist the temptation of reducing the level of Federal red ink by exporting it to the cities and counties of this Nation. The elimination of General Revenue Sharing is no deficit cutting free lunch. The loss of this program will quickly turn into service cuts and property tax increases. We, therefore, hope the committee will make room in its budget for a continuation of their valuable programs.

I thank the Committee for this opportunity to present our union's views.

The CHAIRMAN. Mr. Jones.

STATEMENT OF DONALD JONES, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

Mr. JONES. Mr. Chairman, I want to thank you and your colleagues for the opportunity to address you today. I also want to express my gratitude to Robert Healy of the Chicago Federation of Labor and Paul Booth of the American Federation of State, County and Municipal Employees for their willingness to share their time this afternoon.

Mr. Chairman, I am Donald Jones, representative for the American Federation of Government Employees AFL-CIO, the largest union in the nonpostal Federal sector, representing some 600,000 workers. Here in Illinois and across the country our members provide the essential Government services which include the Veterans' Administration, the Social Security Administration, the Department of Defense, Housing and Urban Development, Environmental Protection, Agriculture, Education, and the FAA, among others. Our members are in the front line and know first hand the devastation caused by this administrations budget policies and proposals.

We are here today to briefly describe the impact of these proposals on the taxpayers and citizens who rely on Government. Our concern is not only those traditional union interests of job security and the economic well-being of our members. Our concern today is whether or not the remaining Federal workforce which services the next few years will be able to meet their missions as previously set forth by Congress and law.

As you know, the President's budget will:

1. Sell off government assets such as oil reserves, power companies and other resources. *This is selling the house in order to save the mortgage.* Such policies raise serious questions as to the role of government and its responsibility.

2. Continue to turn programs back to the states but at the same time cut or eliminate their funding. *This we characterize as "passing the buck without the bucks."*

3. Charge the tax-payers for services such as use of Parks, Coast Guard and so forth. Its your government so pay for it.

4. Eliminate many important programs and severely cut back others. Specifically; HHS-Social Security-SSA will lose approximately 5,000 jobs. The elderly, of course, will see increases in medical deductibles. HHS as a whole, will be receiving the smallest increase in a decade. Especially hard hit will be ADC, Food Stamps, and other similar programs.

Veterans' Administration.—VA will lose some 9,000 employees. Veterans will face a means test in obtaining health care. (No one gave them a means test when they were asked to serve.) Veterans will also lose housing, burial and education benefits.

Food Inspection.—The inspectors would be cut and the companies would be responsible for their own quality control. So, think about that the next time you eat meat.

AILABLE

Department of Defense.—Our concern is that while the costs of the instruments of war continue to escalate beyond belief and beyond control, the base operations and maintenance of our defense capabilities continue to decline. These "Big Ticket" costs are hollow investments in an assumed national security which hides the true picture of readiness.

HUD.—Will lose 400 to 450 workers. HUD faces severe cutbacks in its assistance to cities and community housing programs, economic development projects and other programs designed to relieve some of the country's worst living conditions.

Agriculture.—Agriculture will lose 10,250 employees programs designed for the survival of the family farms are hurt the worst. Overall cut is about 17%.

Transportation.—Department of Transportation will be cut by 2,000 employees. Programs which will suffer include mass transit and air safety.

Interior.—1,700 employees will lose their jobs. Part of this is covered by the administration of Interior resources. Let's face it, It's the "James Watts" program resurrected.

The list goes on. The 23,000 Federal jobs which will be lost must be translated into their public reality. A decline in the standard of living for most Americans, a decline in real defense readiness, a further erosion of our economic base, more restrictions on the educations of our youth; a decline in the quality of veterans care and benefits; slower processing of Social Security applications and a smaller safety net for the poor, with no one left to hold the net.

The Presidents budget also increases pressure to contract out services and functions beyond the schemes already mentioned. This at a time when it is clear that contract costs are out of control and undermonitored. In sum. the President's budget is uncaring and irresponsible. It is based on faulty economics and a let them eat cake attitude toward the poor, working people and the middle class.

GRAMM-RUDMAN

What makes all this budget debate even more serious, of course, is the Gramm-Rudman process or what is left of it. Here we must point out that the current budget proposal is just an initial slice. The biggest cuts will be forthcoming. At this point Congress is still on record in support the overall process required by Gramm-Rudman. Let us look at what would occur.

First, Gramm-Rudman-Hollings will generate a 25-percent reduction in funding for domestic agencies and an 18-percent reduction for DOD according to the Congressional Budget Office.

Second, AFGE estimates a reduction of 400,000 jobs for fiscal year 1987—300,000 layoffs. Many Government programs will become defunct. Use your own experience to talk about the effect of a 20-percent reduction in personnel—what will it mean to the people you service? Or use any domestic agency with exposure to the public such as Social Security, Food Inspection, Park Service, et cetera.

Third, some statistics—if GRH kicks in this will result:

Area	Federal employees	Employee loss	Payroll loss
Chicago	59,208	11,840	$307,840,000
Dallas	21,612	4,320	112,320,000
San Francisco	33,636	6,720	174,720,000
Boston	36,895	7,370	191,620,000
Florida	90,972	18,190	472,940,000

[illegible] AVAILABLE

Loss to State from second round of GRH on State-administered Federal grant and entitlement programs:

Illinois	$618,415,000
Texas	660,662,000
California	1,159,739,000
Massachusetts	337,145,000
Florida	467,743,000

We do not appear here today with only the plea "Don't cut the public." That would be irresponsible on our part. We must offer our alternatives to the President's budget and to Gramm-Rudman-Hollings. Our proposals are:

1. Support a corporate tax policy which fully restores the giveaways of the last five years.
2. Support the AFL-CIO tax programs which could generate some $30–40 billion.
3. Support strict limits on the wasteful system of contracting-out which now ravages the U.S. Government.
4. Cut "Big Ticket War" hardware and instead develop a sane readiness program which properly funds operations and maintenance.
5. Support the Oakar Bill to remove COLA's.
6. And finally, restore a responsible budget process and restore Congressional power in that process—in other words, repeal "Gramm-Rudman-Hollings."

We thank you, once again for listening to our concerns and proposals. We want to assure you that the AFGE and the Federal workforce will continue to supply you with the best impact information we can as the budget decisions are being made.

The CHAIRMAN. Thank you very much, Mr. Jones and Mr. Booth. The Chair yields to the gentleman from Illinois, Mr. Russo.

Mr. RUSSO. Mr. Chairman, I would like to ask one question.

From AFSCME we are going to lose 23,000 jobs. How many jobs will they lose in the State of Illinois alone if the President's budget were put into existence?

Mr. BOOTH. I don't have the number here.

Mr. RUSSO. You are predicting $400 to $500 million worth of loss?

Mr. BOOTH. $500 million in lost Federal aid for the types of programs that we have outlined, yes.

Mr. EVANS. Nationwide, we would be losing over $73 million Medicare for veterans. Do you know how that would translate in this State?

Mr. JONES. I am not sure what it will do.

Mr. EVANS. I want the committee to know what that impact on the VA will be. In areas such as my own, there is an outpatient clinic in Peoria, where many people go to Iowa City, IA, and Danville for Medicare care. They have no other access, given the high unemploymnent we have, if they can't get help from the VA, and the VA is already turning away thousands of people each month.

It's estimated that these cuts will mean 1.1 million people will not be able to use existing outpatient clinics in the United States. That is going to particularly hit hard in Illinois where the unemployment is so high and where people, for example, former United Auto Workers who had health care plans and have been laid off after 6 months lose their health care benefits out of those plans, are not going to be able to go to VA. They are going to be flooding the State and hurting the economic ability of our State to deal with a lot of the problems. So if you could get that information as it develops, I would like to know, of course, and knowing the impact it will have on health care for my State.

Mr. Jones. Yes, sir. In addition to that, the rumor mill has it that, in the Veterans' Administration and the Social Security Administration, the agencies shall give orders to employees for them not to fully develop the claim in which they authorize for the claimants, so as not to yield as many benefits. Previously, the Reagan administration promised the beneficiaries that their monthly rates would not be reduced if he were reelected. Well, due to the proposed cuts in staffing, methods of administration of the program, we anticipate a negative impact on the Social Security recipients benefit checks.

Mr. Evans. Coming from an area that has a large federally employed force at the Rock Island Army Arsenal, the people should also realize when you hurt the Federal workers and State and municipal workers you are also draining money out of the local economies. Our State is really not receiving a fair share of Federal tax dollars coming back to our State for the money we send to Washington, and by not allowing cost-of-living adjustments for retirees or for previously employed people means we have less money to spend in Illinois as well.

Mr. Jones. In addition, the less money to pay taxes with.

Mr. Evans. Absolutely.

Mr. Booth. The difference as it impacts on State and local level is the jobs will not be lost. Probably what will happen is taxes will have to be raised by local and State governments. The services provided by—Illinois happens to be 50th out of the 50 States in terms of the number of local and State government employees per capita. We have a very trimmed State and local workforce. And in order to continue to provide services at county hospitals or in the village of Homewood or city of Chicago, those local governments are being forced by Ronald Reagan to raise taxes. That is why this is not a no-tax-increase budget.

Mr. Evans. Or not provide the services as we have seen with the closing of the Galesburg mental health center and others. I had a public housing authority official from Galesburg come to Washington the other day and indicated to me that some of your former members are now living in public housing with some of the former patients at Galesburg mental health center. That just does not make sense to me to be laying off people when they could be helping people and being in productive jobs as they once were at Galesburg mental health center.

Mr. Jones. In addition to that, we find in the Illinois communities, generally, there are iron bars being affixed to the windows and doors of houses. The judicial authorities do not require criminals to serve in prison the full time sentenced, due to lack of sufficient funds from the Federal Government. More mental patients are being released from institutions prematurely and committing more serious type crimes, because of prior budget cuts. Now, it would appear that the Illinois residents are becoming the prisoners, locking themselves in their own houses, secured with iron bars. This increased security of the Illinois homes was caused by sharp escalation of crime in the streets, which usually would have required an increase in funds, rather than a decrease of moneys from the Federal level to aid in combating crime and helping pay the cost of due process.

Obviously, if collectively, we pool our resources of tax dollars, we shall improve our buying capability more, rather than to buy individually through contractors or promoting federalism for programs such as Social Security retirement, health care, administration of institution, et cetera as the Reagan administration is currently recommending.

In closing, let me say that, the unemployment and crime in Chicago and Illinois due to budget cuts, have and will impact heavily on our daily lives.

The CHAIRMAN. The Chair recognizes the gentleman from Illinois, Mr. Savage.

Mr. SAVAGE. I would only add my questions to, but would commend you for not merely having complaints but actually a positive proposal, and to point out I am very impressed with the alternative budget priorities that you suggest.

The CHAIRMAN. The Chair wants to thank Mr. Jones and Mr. Booth for their testimony. We now call to the witness table Father Richardson, president of DePaul University. We welcome you, Father Richardson and Mr. Hertzler. As you know, we are running behind our schedule. We have an agriculture panel who have come a long way, and I want to let them know right now I have been told they drove 8 hours to get here.

We are not going to leave them, and we also have a community group that we are going to hear. So, before I turn to Congressman Russo, we simply want to welcome you and ask you to summarize your testimony. We have the printed copy before us which we will enter into the record. Congressman Russo, I think you may want to welcome these gentlemen, especially Father Richardson.

Mr. RUSSO. It certainly is an honor for me to welcome Father Richardson. Little did I know back in 1964, when he was teaching me legal philosophy, that someday he would be testifying in front of a committee I would be conducting in Chicago. We have both come a long way. He went from being a professor at the law school to being its president. We have both progressed, Father. I hope the next 7 years continue this progression for the two of us. It's always a pleasure to see you and meet with you and discuss these major educational issues that face not only DePaul University but other private universities in this country as well. I look forward to your testimony.

The CHAIRMAN. Father Richardson, if you would begin, and then we will move to Mr. Hertzler.

STATEMENT OF THE REV. JOHN T. RICHARDSON, PRESIDENT, DePAUL UNIVERSITY

Reverend RICHARDSON. Thank you very much, Mr. Chairman, members of the committee, for your very gracious hospitality here today. As a university president, I speak first of all for the students. Second, since my remarks are going to be aimed primarily at student financial aid, I speak in the interest of the parents and the others who are sacrificing so much to help young people through a college education.

In the past 5 years, Federal aid to students has increased 34 percent as against the overall increase in the Federal budget of 43 percent. At the same time that the annual deficit has grown by 350 percent.

I know there are two basic principles that you probably agree on. I would certainly support the committee in taking all reasonable steps to reduce the budget deficit and, second, to look very carefully at the equitable treatment of all the different citizens in the country. These are very difficult things to accomplish. You have my sympathy and my support in this task.

More specifically, I happen to agree with the general purpose and with the monetary target set by Gramm-Rudman. I think we need this type of discipline, but I do not agree with the indiscriminate approach or mostly indiscriminate approach that this provision makes. In view of the necessity of reducing the budget, speaking in my own name, and not for any other institution, I could certainly agree with a freeze for higher education in the Federal budget. There will have to be some adjustments made, particularly in the reauthorization of the Higher Education Act, but at least the higher education community has reached a national consensus on what changes should be made in this act.

Second, my position is that all additional tax revenues resulting from the normal economic growth of the country should be assigned to the reduction of the Federal deficit. I think the defense budget should be reduced. In my view it is now a national scandal. I think that much of the financing of the country can be put back in better order if Congress and the President are willing to reach some agreement on this one point.

I think it's important for me to note that in speaking for the students and parents who support them in colleges and universities, I don't think I am speaking just for the personal interest of these young people. They are the most important resource this country has. Our future depends more on these people, in my simple view, than on all of the armaments that we can amass. The economic advantages, the cultural, the spiritual advantages of higher education are innumerable. The draconian cuts recommended or proposed by the President last week would have terrifying effects.

For instance, if the President's budget were accepted and the Gramm-Rudman applied, the most needy students in higher education, those who are receiving Pell grants, would be reduced in fiscal year 1987 by 50 percent. That would be devastating. The supplementary education opportunity grants, the SEOG's, would lose their effectiveness.

Moving closer to home here in Illinois, the State has worked very closely with the Federal Government in making higher education accessible and giving students a choice of the institutions that they wish to attend.

The President's budget would undermine much of this. For instance, just eliminating the State student incentive grants, the SSIG's, would reduce the budget of the Illinois State Scholarship Commission by $4 million annually. This means that probably thousands of students in Illinois would suffer a reduction in financial aid.

I would like to move a little bit closer to home, to my own institution. An integral part of DePaul's moral and social mission is to make quality higher education available to less affluent students and their families. In an urban situation, as the one we serve, a good percentage of these people are minority students. We feel a special responsibility toward these students. We know that the future of this city and this area depends upon the leadership available to these people, and higher education is the surest path toward leadership.

We have done all we can possibly do to approach foundations, friends, and alumni of the university. We are making our first priority student financial aid. A cut now, a drastic cut in Federal funding would certainly pull the rug from under us.

I noted in our freshman class of last fall, 1985, that over 17 percent were from families with incomes of less than $15,000, a strong indication of the number of people in the lowest income bracket who wish and are now able financially to attend a private university. Nationally, independent colleges and universities attract only 6.5 percent from this income bracket.

Over 20 percent of our incoming freshmen were eligible for Pell grants, which means they also are at the lower or the lowest part of the economic rung. We were able to increase the number of Hispanic freshmen entering the university last fall from 5.8 to 8.8 percent. This is our goal, to continue increasing this percentage. The percentage of incoming black freshmen and transfer students increased from 13.5 to 15.4 percent. It is because of the moral and social implications of closing the financial doors to these students, that we feel the President's proposal cuts so deeply.

We have increased our own funding for student financial aid. In the last 5 years we have raised this by more than $1,800,000, or 118 percent. The funds we are making available for student employment on campus in 5 years have increased 131 percent. We are willing to work with the State and Federal Governments in making education available to talented students regardless of their background and financial status, but we do need the continued help of the Federal Government.

We also hope that perhaps the tax bill that was passed by your colleagues in the House, after it goes through the Senate Finance Committee, might come back and you might also show us a little bit more favorable consideration in some of the matters directly affecting colleges and universities that certainly Congressman Russo, as a member of the Ways and Means Committee, is very familiar with.

I would like to end my testimony by remarking that in his address to the joint session on Tuesday the President made a very dramatic play at the end of his talk by introducing in the galleries the four students whom he praised so highly. My thoughts at that time were what chances have the brothers and sisters of these students to pursue higher education. He is drastically cutting their chances. It was good Hollywood but a poor budget.

Thank you very much.

[Testimony resumes on p. 167.]

[The prepared statement of Reverend Richardson follows:]

Prepared Statement of Rev. John T. Richardson

May I express my deep appreciation to the distinguished members of this House Committee for coming to the heart of the Midwest to hear the views of citizens gravely concerned with the President's proposed budget. You shoulder very heavy responsibilities. Your time is extremely valuable. Yet this hearing represents the finest of our American democratic traditions. I am honored to address you on an issue so crucial to the welfare of our nation, especially the topic of federal financial aid to college students.

As a university president my first responsibility is to the DePaul students and, by extension, to the students of all of our country's colleges and universities. In the particular context of the federal government's role in financial aid, my second responsibility is to the parents and others who are contributing to the expenses of college students, often at considerable personal sacrifice. My ideas reflect two positions on which we most probably agree and which surely guide your budgetary deliberations: the absolute necessity of reducing the federal deficit and the equitable treatment you must accord all citizens of our country.

AVAILABLE

My plea is that Congress entirely reject the patently unrealistic proposals of the President and develop its own budget, the sections on student financial aid in particular but not exclusively. In the past five years, from FY 1981 through FY 1985, federal support of such aid has increased 35% while overall federal spending has increased by 43%. Moreover, higher education is a source of growth and productivity, not the cause of the budget deficit.

Since this budget deficit has increased by 350% over this five year period and now constitutes a major drag on the country's growth, I agree with the purpose and the monetary targets of the Gramm-Rudman-Hollings amendment, but I plead with your Budget Committee to shape a more discriminating method for reducing expenditures. In the national interest I would support Congressional action to maintain the higher education budget at its present overall level. This would place a heavier burden on the states and private sources to pick up the slack caused by the increasing costs of higher education, but I am confident that the American people will not permit much of the human potential of our country to remain largely underdeveloped. Retention of the present funding level assumes changes in the reauthorization of the Higher Education Act. There has been remarkable consensus around the country on these changes.

Additional tax revenues from normal economic growth in FY 1987 should be assigned to deficit reduction, not to further reductions in the income tax structure sought by the

President. I offer your committee every encouragement not to yield to the President's proposal to increase the defense budget, but rather to reduce it is FY 1987 and the following years. This budget has become a national scandal. Its growth is now opposed by larger proportions of our society.

Financial support of students in higher education extends far beyond the students' own interests. Our nation's future is inseparably connected with the development of the talents of our young people. The strength of our economy depends directly not only in general on a highly educated and motivated populace, but on such specific contributions of higher education as basic research, technological developments, consumer sophistication, and marketing skills. Socially, higher education offers the surest path for developing women and minority leadership. The cultured health of our nation is continually renewed by the nourishment our young people receive in the literature and arts permeating collegiate education. Even spiritually, we all benefit from the moral principles closely associated with the best of higher learning at all colleges and universities, not just those which are church-related.

The Draconian cuts proposed in student aid by the President undermine the national investment in the higher education of our nation's young people, and fail to give us a rational way to reduce the deficit. Compounding the devasting effects these cuts could have is the fact that they hit those students who most need financial assistance. Thus the need-based Pell Grants would be reduced $388,000,000 from the actual appropriation of FY 1986 and 858,000 fewer students, almost 29%, would receive these grants. Should the full provisions of a constitutionally acceptable Gramm-Rudman-Hollings amendment go into effect in FY 1987 under the President's proposed budget, 50% fewer students will receive grants. The Supplemental Educational Opportunity Grants (SEOG) would lose its effectiveness, severely handicapping families which can contribute little to college costs. Funds are sharply reduced for the College Work Study (CWS) program which encourages students to work for part of their college expenses.

Students from middle and lower middle income families would suffer from the President's proposal. Families with incomes above $14,000 could probably no longer look to Pell Grants. Students dependent on Guaranteed Student Loans would face tougher repayment obligations. Lending institutions would be discouraged from making loans because they would be forced to assume greater risks which require larger reserves.

States, such as Illinois, have worked very effectively with the federal government up until now to provide access and choice to college students. By completely undermining federal aid to students, the President would create an intolerable burden for the states, frustrating the struggle to offer student access and choice to both public and independent colleges and universities. The elimination of the

State Student Incentive Grants (SSIG) would reduce Illinois monetary awards. There is real danger that in Illinois only students in the lowest economic category can expect the maximum awards previously shared by students in the lower middle income bracket.

While students in public and independent colleges would be equally harmed by the President's proposal, another likely outcome would be a further shift of students from independent to public colleges. The states would then be additionally burdened because, from the perspective of public financing, the independent colleges are more cost effective. In recent years as the gap between the cost at independent and public institutions has grown faster than the availability of student financial aid, Illinois has experienced a notable shift of middle income students to public universities.

Closer to my own home, DePaul University has as an integral part of its moral-social mission making available a high quality education to students of less affluent families. In our urban location many of these students are minorities. Successful accomplishment of our mission calls for substantial student financial aid. Consider what is at stake. Of the freshmen class of 1985, 17.1% were from families of incomes less than $15,000, as compared with 6.5% among freshmen from independent colleges nationally. Pell recipients were 20.5%, compared with 12.3% of independents nationally. As a result of considerable institutional effort in reducing barriers to college education, and thanks to foundation as well as government financial support, the percentage of Hispanic freshmen increased from 5.8 in 1984 to 8.8 in 1985. The percentage of incoming black freshmen and transfer students increased from 13.5 to 15.4.

Following the publication of the President's proposed budget last week, the Department of Education issued its own subset budget and policies. In the face of more minority students being unable to enter college because of costs, this Department intends to "restore the traditional emphasis on student and parent responsibility for financial college costs." Knowing that students and parents cannot do this, colleges and universities are digging deeper into their own resources to aid students. Between FY 1981 and FY 1985 DePaul University increased its own institutional funding of student grants by $1,854,000 or 118%. During the same period it increased funds for student employment by $732,000 or 131%.

One way to lessen the tuition burden on students and their parents is to maintain the current tax exempt status on gifts of appreciated property, bonds for educational facilities, scholarships and fellowships, pensions, and employee educational assistance. Although these tax issues are now before the Senate Finance Committee, the House may see them again and be in a position to support college students without significant reduction in tax revenues.

Last week in his presentation of the FY 1987 budget to the joint session of Congress, the President was at his dramatic best in phrasing the accomplishments of four young people. Ironically however, the substance of his budget will make it ever more difficult for the sisters and brothers of these young people to attend college. I am confident that the people and the Congress of the United States recoginze the difference between the ingredients of a Hollywood scenario and the basis of a sound federal budget.

Respectfully submitted,

The **Chairman**. Thank you very much, Father Richardson.

Now we will hear our next witness, Mr. Hertzler. We will ask you to summarize, and we will get right into questions.

STATEMENT OF ELAM HERTZLER CHIEF OF STAFF, ILLINOIS BOARD OF EDUCATION

Mr. **Hertzler**. Thank you very much.

Superintendent Sanders appreciated very much the opportunity to appear before you concerning the President's education budget and its impact on Illinois State education; however, he was unavoidably detained in the sense the Illinois Legislature is having an oversight hearing today on education reform legislation, and today is the day for the state of the State address by the Governor.

It is my pleasure to be here on his behalf and talk to you about his concerns with the budget. If the President's budget were adopted, Illinois State Board of Education administered Federal programs for school year 1986-87 would receive a cut of $48.3 million or about 10.1 percent less than the current estimate of $480.1 million.

That is after Gramm-Rudman. Additionally, the President's proposed funding levels for school year 1987-88 would include an estimated cut of $38.8 million or 8.1 percent less than would be received under current law.

The accumulative effect of this, of course, is that we would lose $87.1 million over these 2 years.

The proposed reductions in Federal education spending involve highly focused programs with targeted funds for the education of the most needy, those least likely to make it on their own.

I would like to point out in discussing the President's proposed education program for fiscal year 1987, Secretary Bennett said, and I quote, "It is important to remember the total Department of Education dollars represent less than 7 percent of total U.S. expenditures for education.

"This means our proposed reductions will have a minimal impact on the Nation's education budget, at most 1 percent. The education glass, in other words, is 99 percent full." The implication of the

Secretary's statement is that State and Federal funds can be combined or shifted from program to program and are distributed evenly across the State to provide for educational services at the local school level.

Consequently, he feels the proposed reductions in Federal spending will have a minimal impact, at most 1 percent.

The concept certainly appears to overlook the most important aspect of Federal assistance for elementary and secondary education. It is the targeting of Federal resources to programs designed to help disadvantaged students, those most in need of additional services if they are to have an equal opportunity to learn along with their fellow students.

Superintendent Sanders' formal statement to the committee provides as much detail on the specific programs affected as we could develop in the short time the President's budget proposal has been available to us. That is just since this past Friday.

However, in the interest of saving committee time, I will certainly not repeat that level of detail, but rather refer to the written testimony.

In announcing the President's budget proposal, Secretary Bennett also indicated States and localities have also decided to increase their education spending in recent years and are continuing to do so.

I am still quoting: "I expect that these increases will more than offset the reductions we are proposing." Again, the statement implies a flexibility in budgeting State and Federal dollars that does not exist. State funds are not available to replace diminishing Federal dollars since Federal dollars are supplemental and categorical.

The alternative is to reduce funding for the most educationally needy students. In Illinois, for example, we are currently implementing an education reform package designed to improve educational services for all of our students. These reforms, along with the normal increases—annual increases required for maintaining elementary and secondary education—required over $411 million of new State money for the current school year, and the State board is proposing a similar increase for next year.

Additional State dollars in Illinois are just not available to replace the reductions proposed by the President's budget. The superintendent's response to the President's proposed reductions in elementary, secondary education certainly is not intended to ignore the fiscal realities facing the Government and your Budget Committee.

The problems of the growing deficit, must be addressed, and we recognize that. Elementary and secondary education have shouldered a fair share of previous attempts to reduce the deficit, and Illinois educators are willing to endure a fair share of future reductions.

However, as you consider Federal spending priorities this year, I want to encourage you to consider Federal funding for elementary and secondary education programs as an investment, one that pays dividends both now and in the future.

The current dividend is that disadvantaged students are helped at a time in their educational experience when they need it the most. This specialized assistance early in their school experience helps them to solve problems which, if not remedied, will preclude them from developing the basic educational foundation for continued learning.

The future dividend is that when students become adults, they are more likely to become employable, participating members of our society. They will be better equipped with the basic skills necessary to survive in our competitive society because of the Federal investment in providing remedial assistance early in their educational experience.

The alternative is that these students eventually become more dependent on society. Welfare and remedial educational services for adults are much more expensive than providing the services while students are still in school and even for preschool programs.

We believe in the Federal-State partnership in solving the problems facing our Nation. Illinois is responding to the challenge of improving educational opportunities and service for our children. We encourage you to continue the traditional Federal role in order that we might be able to work and provide the services for these needy ones. Thank you.

[Testimony resumes on p. 174.]

[The prepared statement of Ted Sanders follows:]

PREPARED STATEMENT OF TED SANDERS, STATE SUPERINTENDENT OF EDUCATION, STATE OF ILLINOIS

If the President's proposed budget were adopted, Illinois State Board of Education-administered federal programs for the 1986–87 school year would receive a cut of $48,315,159 or 10.1 percent less than the estimated $480,150,162 appropriated under current Federal law after the required reductions of the Gramm-Rudman-Hollings legislation.

Additionally, the President's proposed funding levels for the 1987–88 school year indicates an estimated cut of $38,755,657, or 8.1 percent less than is to be provided under current law for the 1986–87 school year.

The accumulative effect of these reductions proposed in the President's budget for Illinois over the next 2 school years total an estimated $87,070,816. (The attached chart provides specific program information regarding these reductions.)

The proposed reductions in Federal education spending will involve highly focused programs with targeted funds for the education of the most needy, those least able to make it on their own.

In discussing the President's proposed education budget for fiscal year 1987, Secretary Bennett said, ". . . it is important to remember that total Department of Education dollars represent less than seven percent of total U.S. expenditures for education. This means that our proposed reductions will have a minimal impact on the Nation's education budget—at most, one percent. The education 'glass,' in other words, is at worst 99 percent full."

The implication of the Secretary's statement is that State and Federal education funds can be combined, or shifted from program to program and are distributed evenly across the state to provide for educational services at the local school district level. Consequently, the proposed reductions in Federal funding will have "a minimal impact at most, 1 percent."

This concept appears to overlook the most important aspect of Federal assistance for elementary and secondary education—that is the targeting of Federal resources to programs designed to help disadvantaged students, those students most in need of additional services if they are to have an equal opportunity to learn along with their fellow students.

The proposed reductions in Child Nutrition Programs for the 1986–87 school year is an estimated $34,729,159, or nearly 22 percent below the current year funding level. Basic reimbursement rates for all types of meals will be reduced and the Special Milk Program will nearly be eliminated.

We estimate 228,941 students will not receive school lunch benefits if these proposals are enacted into law. Additionally, we estimate 1,777 school lunch staff positions will be lost displacing current workers to the unemployment lines. The President's proposed budget for the 1987-88 school year continues Child Nutrition programs at these reduced levels.

The President's proposed budget would reduce Vocational Education programs in Illinois by an estimated $8,732,539, or 25.5 percent for the 1986-87 school year by rescinding funds appropriated in current Federal law. An additional reduction of $8,300,000 is proposed for the 1987-88 school year. Over the 2-year period, these reductions would eliminate all funds for program improvement, innovation and expansion and substantially reduce funding for disadvantaged special populations in the 1987-88 school year.

Programs for an estimated 2,400 dropouts and potential dropouts primarily from disadvantaged minority groups will be eliminated. Education and employability skills training for more than 2,500 teenage parents will be reduced. Child care, transportation and tuition for 1,500 displaced homemakers would be reduced. Teachers of more than 5,700 limited English-proficient students enrolled in vocational education programs would no longer receive program improvement services. A special home economics program providing services to latch-key children will be curtailed, virtually eliminating on-the-job training experiences for a number of northern Illinois high school students.

Inservice training for vocational education teachers is extremely important as they are responsible for preparing noncollege bound students for employment after high school. But the requirements of employment are constantly changing to reflect the needs of an increasingly technologically oriented society trying to maintain its standing within an increasingly competitive world.

However, the President's proposed budget would severely curtail inservice training programs in Illinois for vocational education teachers. More than 500 high schools, 32 area vocational centers and 39 community colleges would lose $2,000,000 annually that supports inservice training for nearly 12,000 teachers. Special programs for new vocational teachers and inservice for 3,000 practicing teachers conducted at nine State universities will be eliminated. Technical and employability skills seminars for teachers, counselors, and administrators will be curtailed affecting the quality of instruction in 250 secondary schools and 30 community colleges. Career guidance services for 750 counselors serving 225,000 Illinois students will be eliminated.

These proposed reductions will also eliminate innovative curriculum improvement projects developed in conjunction with private industry. For example, two industry-based programs for high school seniors at the Kinetic Systems Corp. in Lockport and the FMC Corp. In Hoopeston will be discontinued. These programs provide instruction in subjects such as digital logic, blueprint reading, computer programing, and statistical quality control.

At a time when almost 50 percent of our high school students choose not to attend college, I cannot agree with the administration's attempt to reduce support for the improvement and expansion of these programs which prepare students and adults for employment. These Federal vocational education funds are the only funds available for curriculum, staff, and equipment renewal.

The President's proposed budget would also rescind funds appropriated for the 1986-87 school year that provide services to immigrant and refugee children. Illinois has nearly 28,000 such students receiving Federal support through the Emergency Immigrant Education and the Transition Program for Refugee Children. These programs provide specialized inservice to teachers, teaching materials required for multicultural students, remedial programs for the students, and support services such as counseling and programs for parents. The proposed budget would terminate these programs for the coming school year.

The proposed budget rescinds 30 percent of the funds appropriated for technical assistance to schools through title IV of the Civil Rights Act for the 1986-87 school year, and completely terminates the programs in the 1987-88 school year. These programs provide services to school districts to help them resolve issues relating to race desegregation, sex equity and national origin minority students. Inservice training for teachers and administrators, the development of curriculum materials, and technical assistance to school districts would be terminated if the President's budget were to be enacted.

Proposed rescissions in funds for Handicapped Education for the 1986-87 school year will result in level funding for 3 consecutive school years for this program. School districts will have to reduce services to handicapped students due to the effects of inflation on program costs. Additionally, Federal funds provide primary support for Illinois regional special education programs. These programs provide services to 6,000 low incidence, severely handicapped students, and we anticipate a more severe reduction in services to these students if the President's budget is enacted into law.

The proposed elimination of the Impact Aid, part B program would reduce support to Illinois school districts to compensate for the loss of revenue due to Federal ownership of property. Partial support for an estimated 59,000 students would be eliminated. This will bring increased pressure on the affected school districts to raise local revenue to provide educational services to students attending school primarily as a result of Federal activities in the area.

The President's proposed budget would reduce funding for the Migrant Education Program by 20 percent in the 1987-88 school year. Specially developed programs to meet the particular needs of migrant children will be substantially reduced. This will only add to the unique educational problems children with seasonally mobile parents encounter in their educational experience.

In announcing the President's budget proposal for education, Secretary Bennett indicated that ". . . *States and localities have decided to increase their education spending in recent years—and are continuing to do so.* I expect that these increases will more than offset the reductions we are proposing."

Again, the statement implies a flexibility in budgeting State and Federal dollars that does not exist. State funds are not available to replace diminishing Federal dollars. The alternative is reduced funding for the most educationally needy students.

In Illinois, for example, we are currently implementing an education reform program designed to improve educational services for all of our students. These reforms, along with the normal annual increases required for maintaining elementary and secondary education in Illinois, required over 411 million new state dollars for the current school year. A similar increase in State funding is being proposed by the Illinois State Board of Education for the 1986-87 school year.

Additional state dollars in Illinois are just not available to replace the reductions proposed by the President's budget.

My response to the President's proposed reductions in elementary and secondary education is not intended to ignore the fiscal realities facing the Federal Government. The problem of reducing increasing federal budget deficits must be solved.

Federal elementary and secondary education programs have shouldered a share of previous attempts to reduce the deficit, and Illinois educators are willing to endure a fair share of future reductions required to balance the national budget.

However, as you consider Federal spending priorities this year, I want to encourage you to consider Federal funding for elementary and secondary education programs as an investment—one that pays dividends both now and in the future.

The current dividend is that disadvantaged students are helped at a time in their educational experience when they need it the most. This specialized assistance early in their school experience helps them to solve problems which, if not remedied, will preclude them from developing the basic educational foundation necessary for continued learning.

The future dividend is that when these students become adults they are more likely to become employable, participating members of our society. They will be better equipped with the basic skills necessary to survive in our competitive society because of the federal investment in providing remedial assistance early in their educational experiences.

The alternative is that these students eventually become more dependent upon society. Welfare and remedial educational services for adults are much more expensive than providing remedial and other support services while the student is in school. There are other less tangible, but nevertheless potential impacts on society that result from adults unable to participate effectively in our society.

We believe in the Federal-State partnership in solving the problems facing our Nation. Illinois is responding to the challenge of improving educational opportunities and services for our children. We encourage you to continue the traditional Federal role of providing assistance to those disadvantaged students needing extra help in their elementary and secondary school years.

ILLINOIS STATE BOARD OF EDUCATION ADMINISTERED FEDERAL PROGRAMS: ESTIMATES FOR THE 1986-87 AND 1987-88 SCHOOL YEARS BASED ON CURRENT LAW AND THE PRESIDENT'S PROPOSED FISCAL YEAR 1987 EDUCATION BUDGET

			President's proposed budget—					
Programs	Estimated school year 1985-86 (1)	Current law estimates under G-R-H 1986-87 school year (2)	1986-87 school year (3)	Compared to current law 1986-87 school year (4)		1987-88 school year (5)	1987-88 school year compared to 1986 current law estimates (6)	
Food and Nutrition:								
Child nutrition programs	151,448,137	158,263,303	123,744,251	(34,519,052)	(21.8)	129,312,742	(28,950,561)	(18.3)
Nutrition education and training	210,000	210,000	0	(210,000)	(100.0)	0	(210,000)	(100.0)
Subtotal	151,658,137	158,473,303	123,744,251	(34,729,052)	(21.9)	129,312,742	(29,160,561)	(18.4)
Chapter 1, ECIA:								
Grants to LEA's	153,385,640	146,790,057	146,790,057	0	0	156,309,793	9,519,736	6.5
Migrants	2,355,463	2,254,178	2,254,178	0	0	1,803,337	(450,841)	(20.0)
Handicapped (Public Law 89-313)	21,134,965	20,226,162	20,226,162	0	0	21,134,965	908,803	4.5
Neglected and delinquent	988,534	946,027	946,027	0	0	988,534	42,507	4.5
State administration	1,666,356	1,594,703	1,594,703	0	0	1,666,356	71,653	4.5
Subtotal	179,530,958	171,811,127	171,811,127	0	0	181,902,985	10,091,858	5.9
Chapter 2, ECIA (consolidation)	23,351,440	22,347,328	22,347,328	0	0	23,351,440	1,004,112	4.5
Science and mathematics education (Public Law 98-377)	2,994,179	1,273,712	1,273,712	0	0	0	(1,273,712	(100.0)
Proposed teacher training and improvement	0	0	0	0	0	2,802,000	2,802,000	100.0
Education of the handicapped:								
State grants	56,569,027	57,980,255	56,569,027	(1,411,228)	(2.4)	56,569,027	(1,411,228)	(2.5)
Preschool incentive grants	2,267,857	2,246,301	2,246,301	0	0	2,424,261	177,960	7.9
Personnel development	48,500	48,689	39,779	(8,810)	(18.3)	38.207	(10,482)	(21.5)
State centers/deaf-blind	33,322	31,889	26,564	(5,325)	(16.7)	20,225	(11,664)	(36.6)
Children early education	94,598	96,596	94,664	(1,932)	(2.0)	94,598	(1,998)	(2.1)
Subtotal	59,013,304	60,403,730	58,976,335	(1,427,395)	(2.4)	59,146,318	(1,257,412)	(2.1)

Vocational Education:								
Basic grants	34,165,423	32,696,310	25,300,000	(7,396,310)	(22.6)	17,000,000	(15,696,310)	(48.0)
Consumer and homemaking	1,396,269	1,336,229	0	(1,336,229)	(100.0)	0	(1,336,229)	(100.0)
East central curriculum management center	150,238	152,396	152,396	0	0	152,396	0	0
Subtotal	35,711,930	34,184,935	25,452,396	(8,732,539)	(25.5)	17,152,396	(17,032,539)	(49.8)
Job Training Partnership Act	7,037,479	6,513,645	6,513,645	0	0	6,513,645	0	0
Adult education:								
State grants	4,637,144	4,437,747	4,437,747	0	0	4,638,827	201,080	4.5
Title XX	7,000,000	8,134,500	8,134,500	0	0	8,134,500	0	0
Subtotal	11,637,144	12,572,247	12,572,247	0	0	12,773,327	201,080	1.6
Civil Rights Act, title IV (technical assistance)								
Race	503,265	481,625	337,137	(144,488)	(30.0)	0	(481,625)	(100.0)
Sex	228,165	218,354	152,848	(65,506)	(30.0)	0	(218,354)	(100.0)
National origin	312,261	298,834	209,184	(89,650)	(30.0)	0	(298,834)	(100.0)
Subtotal	1,043,691	998,813	699,169	(299,644)	(30.0)	0	(998,813)	(100.0)
Emergency immigrant education assistance	1,565,901	1,498,567	0	(1,498,567)	(100.0)	0	(1,498,567)	(100.0)
Transition program for refugee children	775,090	741,761	0	(741,761)	(100.0)	0	(741,761)	(100.0)
Bilingual education (technical assistance)	95,042	95,700	95,700	0	0	90,559	(5,141)	(5.4)
Common core of data survey	27,022	25,860	25,860	0	0	25,860	0	0
Impact aid, Part A	7,965,334	7,965,334	8,323,233	357,899	4.5	8,323,233	357,899	4.5
Impact aid, Part B	1,244,100	1,244,100	0	(1,244,100)	(100.0)	0	(1,244,100)	(100.0)
Subtotal	9,209,434	9,209,434	8,323,233	(886,201)	(9.6)	8,323,233	(886,201)	(9.7)
Total	483,650,751	480,150,162	431,835,003	(48,315,159)	(10.1)	441,394,505	38,755,657	(8.1)

The CHAIRMAN. I want to thank you very much, Mr. Hertzler. You are speaking officially, are you not, on behalf of the State superintendent of education?

Mr. HERTZLER. That is correct.

The CHAIRMAN. So, your testimony represents the testimony he would have given had he been here, and we are well aware this is the state of the State day, and we are very sorry because we wanted very much to have officials of the State testify and particularly because of the bipartisan nature of our effort to gather information, and we know that the administration is headed by the Republican Governor.

So we really are deeply grateful for the fact that the State superintendent of education who could not be here, allowed you to come and speak on his behalf to give us the impacts.

We want to thank him for that and, too, we certainly will keep it in mind.

I am going to yield to my colleague, Mr. Russo.

Mr. RUSSO. First of all, I want to compliment both gentlemen on their statements, Father Richardson especially. I find it kind of interesting that the Secretary of Education would say that the 1-percent cut from 8 to 7 percent would not be something to worry about, because 93 percent comes from the States.

I think it shows a total lack of understanding of the educational system and needs in this country. I think it is a disgrace that the Federal Government only gives 7 percent out of the 100 percent for education.

Since the President has been in office, he has reduced that amount of money as the contribution to education. He is talking about putting space stations in space, Star Wars in space, flying across the land in 2 hours.

How does he think he is going to do all this? Does he not think education plays a role in being able to formulate that? Isn't it a disgrace that the Japanese who, with half the population, put out three times as many engineers as we do? We are the country of the greatest wealth.

So, I find that statement totally out of place. But it just gives you a idea of the priorities of this particular administration.

Father, I think the interesting telling comment is in your statement on page 4 in which you said students from middle income families and lower middle income families would suffer from the President's proposal.

You know, it always used to be that the real poor can get Pell grants, and the real rich can dip in the pockets of the parents, and middle income, there is always some kind of a way of getting assistance.

I remember in Jimmy Carter's day we had the Middle Income Assistance Act which provided loans and guarantees for those kinds of students.

Now, as I understand it and your statement, those people are not going to be able to apply for Pell grants or even be able to deal with the problems with student aid.

How do you see the new requirements for student aid affecting these middle income families?

Reverend **Richardson**. I see the middle income families having to depend more upon loans than grants, and this becomes a dangerous situation, because they are so indebted themselves during their college years that it is very difficult afterwards.

At the same time, the President's proposal wants to change both the NDSL and the SDL, again shifting more of the fiscal responsibility to the States, and that, in turn, is going to mean much less funding available for the Illinois State scholarship monetary awards which are extremely important to all the students and the independent institutions.

Mr. **Russo**. Father, what I find a real serious problem is that we have heard all these criticisms about how people don't repay their loans.

I think if you checked out the student loan program, and you could speak to it as the president of the university, I would suggest that probably 95 percent of all students pay their loans back. If we had that success in every other Federal program, it would be a great program.

So, here is a program that really has only 5 percent bad apples in it, 95 percent good coming out of it, and we are going to cut it to the point where people won't use it.

As I understand it—you can correct me if I am wrong—now, under the President's new guidelines, students will have to begin to pay the interest on their loans while they are in college. They are not even going to wait and see if they can go out and get a job. They will have to pay 7 percent while in college, and the moment they graduate they jump up and have to pay 10 percent.

In essence, what they are doing is basically making the student loan program ineffective.

Reverend **Richardson**. That is right. Most unattractive for the students.

Mr. **Russo**. Thank you, Father.

The **Chairman**. The Chair yields to the gentleman from Illinois, Mr. Evans.

Mr. **Evans**. Thank you, Mr. Chairman.

I am one of the beneficiaries of the student loan program. I paid mine back. I am glad to be a Member of Congress. Had I not had that opportunity along with the GI bill, I doubt that I would have been able to go to Augustana College in Rock Island and Georgetown University of Law Center in Washington, so I am privileged.

I think that kind of opportunity ought to be available to the students of this generation. It clearly isn't.

Just one other area. The President's budget also proposes elimination of a new program that he established last year, the peacetime GI bill, which we think is not only going to help diversify universities and student bodies such as yours, but also open up the higher educational process for a lot of Americans that otherwise won't get that opportunity. We think it is a good way of drawing highly qualified people into the Armed Forces. So, there is a national security implication, as well.

That particular program, because it just started with new recruits last July, probably has not had a direct impact on your university and others, because those people are still in the Armed Forces, but as we have seen, it has been an incredible program throughout its existense since World War II when it was first started, and the Federal Government has got $6 back for every dollar it put into the GI bill, because, obviously, when people are better educated, they pay more taxes, myself included.

The **Chairman**. The gentleman from Illinois, Mr. Savage.

Mr. **Savage**. Just to say I was glad to hear your sensitivity to the especially negative impact the proposed cuts would have on minority students.

Reverend **Richardson**. Very true.

Mr. **Russo**. Let me ask Mr. Hertzler, isn't it a fact that when you cut back on those various categorical programs and you put more restrictions on the student loan program, and they then ask you to pick up the tab, isn't it difficult for you? Difficult because how can you pick up a tab if they cut other parts of the budget, so you don't have enough money around in the State to transfer from one section to the other?

Mr. **Hertzler**. Absolutely right, Congressman.

Mr. **Russo**. The President is giving you a greater burden to restore the responsibility to students and parents, but he is not making it easy for the parents to do it, nor making it easy for the State to do it. He certainly is destroying the private institutions' ability to do it. So from all different segments, all we know is that it is making it harder and harder for the next generation to attend higher education.

Mr. **Hertzler**. Yes, and harder for them to be prepared to be able to do that in addition to the financial considerations.

Mr. **Russo**. Thank you.

The **Chairman**. Mr. Hertzler, could I just ask you one question? Do you have a total amount of educational dollars that the State of Illinois will lose if the President's budget would be implemented as proposed?

Mr. **Hertzler**. $48.3 million would be our cut for this year, $38 million for next year for a total of $87 million over the 2-year period.

The **Chairman**. You would be cut $48 million for 1986?

Mr. **Hertzler**. That is correct.

The **Chairman**. Or $48 million for 1986–87?

Mr. **Hertzler**. 1986–87 would be $48 million and another $38 million for 1987–88.

The **Chairman**. OK. So thus, you would be talking about $90 million or so in educational aid.

Mr. **Hertzler**. Correct, which is 20 percent or 10 percent each year, roughly.

The **Chairman**. That is 10 percent. Have you also taken into account the rescissions and deferrals as well as the sequestration of Gramm-Rudman on March 1 when you did those figures?

Mr. **Hertzler**. No; we did take into account the rescissions, but we did not take into account the Gramm-Rudman.

The **Chairman**. All right; so, therefore, actually it would be more——

Mr. **Hertzler**. Probably closer to 14 percent, I would guesstimate, but I would have to figure that more closely to be sure.

The **Chairman**. Therefore, it would be a total loss of over $100 million of Federal funding for education from the Federal Government over the next 2 years, about a 14-percent reduction each year.

Now, let me ask you a question. What do you suspect that the State superintendent of education would have to do in those circumstances in light of the Federal mandates as well as State mandates for educational services?

Would you just do without that 14 percent, cut services 14 percent, or would you make up the full amount or part of it and how would you do it?

Mr. **Hertzler**. We would have a very difficult time, Mr. Chairman, because of the fact that the Federal aid is supplemental and comes on top of the basic State program, so that what we are trying to do now with our education reform package is to build our base and then bring the Federal money in on top of that for those special cases, those needy students, so that we would not have the money available to replace Federal services, but would rather have to concentrate on building the base and having a stronger base for all our students.

The **Chairman**. How would you do that?

Mr. **Hertzler**. We are doing that with an education reform package that has been introduced this year that has 169 different components. We have broken them down.

The **Chairman**. Where are you getting the revenue to do it?

Mr. **Hertzler**. State revenue. The Governor has given us a very high priority in education. ECS—Education Commission of the States—has said we are at the head of the class in terms of what we are doing, and we do have an exciting reform package here within the State.

The **Chairman**. So, in other words, your State which has a Republican administration has given a stronger commitment to education and which is now being undercut at the Federal level to achieve the goals that were originally set out.

Mr. **Hertzler**. You need to recognize, too, this is bipartisan in the sense the legislature is Democratic and the Governor is Republican, so it was a joint effort and a high priority on the part of many people in order to make this possible within the State.

The **Chairman**. I want to commend you all for having that bipartisan effort. I just wish we had a little more of that ourselves as we look at this tremendous crisis that we are facing, because there are those who don't feel this is a worthwhile process coming out to talk to Republican leadership like yours who have a model of how to work together bipartisanly and investigate education.

I also want to say to Father Richardson, I am glad you brought out what would happen at DePaul vis-a-vis the cutbacks in student loans as well as Pell grants. You showed that what you really are doing is not limiting educational opportunity to upper income groups, and closing the door on the lower and middle income groups, thus locking them into a place where they will not get that higher education, and therefore, will not be able to walk through the doors of opportunity which has made this Nation great.

I want to commend DePaul for trying to keep them open, and I think I can say on behalf of our colleagues, at least of this committee, that in the past we have been able to achieve deficit reduction, strong deficit reduction, and yet maintain a high commitment to education.

I suspect this year the will of the House will be to reduce the deficit strongly, but at the same time maintain a strong commitment to education. It will not be to separate these kinds of draconian reductions that close the basic door of opportunity to those students from all walks of life, all communities, from being able to achieve and be able to fly that Orient Express which is apparently such a great priority.

Mr. RUSSO. Mr. Chairman, if I may interrupt you for a moment, if it wasn't for DePaul University's commuter attitude when I first was going to school, I would not have been able to obtain the quality education I did recieve.

I was born and raised right over here in Little Italy, and my dad struggled to raise the funds to send me to college and if it had not been for the way DePaul treated those less fortunate, I, like Lane Evans, wouldn't be here today. I wouldn't have had the higher education to realize my dream.

We need to make sure that education on the Federal level is given the priority that the State of Illinois has seen fit to give it.

The CHAIRMAN. I would concur with that statement.

Having those doors open is pretty important, because it could produce Congressman Russo.

Another thing I want to make note of is in your statement. You point out that despite what the Government is doing, DePaul is working to increase its private funding and thus, you are not sitting around waiting for the Government to do anything.

You are trying to work in partnership. I know that you had 118 percent increase in institutional funding for your students. In other words, that is what you at DePaul have done and also that the student employment, you have increased student employment by 131 percent.

So, it is not as if you are sitting around waiting for the Government to do it. You are trying to open more doors, and they are trying to close them. Thank you very much.

At this point we would like to have our agricultural panel come forward. We have full copies of your testimony, but before you summarize them—hopefully so we can get into questioning—I would like to point out that in this hearing we have tried to be broad-based in the presentation of witnesses.

We have had bipartisan witnesses come before the committee. We have had Government and private sector. Not only have we had witnesses that represented urban America, but we have had people who represented suburban America and rural America. Now we also have those who will be representing one of the most important areas of our country; that is the farm area which is vital to our economic growth and the maintenance of our great Nation.

So at this time, we would like to call on Mr. Arndt and Mrs. Leising. If you would briefly summarize your statements we will get into questions. We will start with Russell Arndt

STATEMENT OF RUSSELL ARNDT, FORMER PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, FAMILY FARMER

Mr. ARNDT. Thank you, Chairman Gray. Congratulations on the 80th anniversary of your church. I think that is wonderful.

The CHAIRMAN. Thank you very much.

Mr. ARNDT Agriculture is under a great deal of stress these days due to, of course, a large drop in prices that we have had. Many of the changes have occurred rather rapidly. The stress is being experienced not only by the basic producers themselves, but also by people who supply the producer, by the people up and down the main street of many of the small towns and villages that we have in our rural countryside.

We are at the point now where any additional cuts to the income or service areas in agriculture will affect the stability of someone within the system, either the farmer or someone else who is dealing with him. Our administration has indicated that they are trying to expand exports but as we look at this budget, we have to wonder if that is really true because some of the very things that are designed to help the expansion of exports have been deleted from the budget or greatly restricted.

I think that crop insurance, they are talking about phasing that out and that has been a thing that recently the farmers are just getting a hold of good in its new form. I think it should be given an opportunity to go as it is right now because if the price of that insurance increases rapidly, probably many of them will decide not to use it.

This is not the particular time when we can be without some assurance of some crop disaster insurance. I am really somewhat alarmed by the cut in the extension budget of 57 percent and I have enclosed the copy of two programs and I think it is the back side of your enclosure giving an example of some of the things that they are doing today. One is family and agricultural resource management and this essentially is help with family farming budgets, an effort to help you analyze your costs and point you in the direction of which areas in your farming you can make some changes without severely changing the income side or in many cases even helping the income side.

So it is management help. The other program that you see on the back side of that copy is called Beyond Coping, and this is dealing with the stress that we have in many of the communities in the families because of these changes that are taking place.

We had a specific example in our community this past summer when a man about my age that I went through 4-H with him, he farmed. The problems overwhelmed him and one day he didn't show up and one of the neighbors saw that the machinery that he was using in the field was parked. He made his way down there and he parked his tractor and his applicator across the lane to block it and took the pickup on down the lane, had taken a hose, put it inside the pickup, got in, started the motor and committed suicide. He was overwhelmed by the trials and tribulations we had. We read about these things.

We see in Iowa a banker was shot by a man who was under more stress than he could handle. And now we have in our rural areas some help for people dealing with these, and the President comes along and says he is going to take 57 percent of the money away from the extension programs where the people are helping us in these areas.

I think it is a serious mistake. All right. Back to some of the other areas of the budget. While we are talking about the additional pages on the back, I have two tables, one of which I think you will be specifically interested in, marked table No. 2, and it has to deal with net farm income. In other words, what the farmer has left after he pays his bills for fertilizer and seed and electricity and all the other things.

You will notice that we have 73.8 percent of the farmers in this survey in 1984 who had less than $10,000, between zero and $9,999, left in net income. We look closer at this and we see it shows that 60 percent and under of these farmers had $5,000 or less left in net income.

So the same things that we were talking about here in the heart of Chicago and many of the other large cities are also striking the people in the rural communities.

So we do have something in common with the other people. All right. I will move on rather rapidly.

There are some other tables in there that you would probably be interested in. John Block has stated a number of times it is important that we conserve our soil and yet we see now that he has cut the soil conservation budget out of ASC completely, and reduced the SCS budget by 20 percent.

Again, it seems like a contradiction of terms to me. I will skip over the grain inspection.

In total, my firsthand evaluation of this budget is that it will result in lower farm income, not higher, more stress, more bankruptcies, and more rural banks closed.

Now, I know that your task is difficult and I know that many times you have said, well, if we can't make the cuts, then how do we cope with this thing, and I have addressed that problem.

I would touch on it just briefly, but at home when we go out to weed the garden, we don't go out and pull up every fifth plant in the garden and say we are weeding the garden. We don't cut 4 inches off the top of every plant in the garden and say we are weeding the garden. We go out and we pull the weeds and leave the productive plants that we intend to harvest, be it vegetables or corn or whatever the case may be.

I think here we have a case of trying to either cut 4 inches off of the top or pull every fifth plant and we need some selective sorting, I am sure, of our national budget, but it has to be done by someone who can tell the weeds from the cauliflower.

I don't see that in this particular budget. OK. I think we also need to look at the effect of these cuts not only on what they do for the budget, but also what they do to the people, to the people who are involved, people like we have heard from here today.

I have a suggestion and that is that we have defended and are still defending many of the countries in the world with our arms and our troops and I suggest that we pass a larger portion of that defense cost over to them and take it from our defense budget.

If we need some high technology, let's go with the high technology, but let's take some of the gun-carrying responsibilities and pass them over to the countries that we are really defending. That is what I am saying here.

I give another example with Korea. Korea now wants to sell us low-price cars while announcing at the same time that they are going to increase the purchase of corn from China. We have 40,000 troops over there protecting those rascals you see.

So I say let them use their own 40,000 troops and let's cut the defense budget and spend some of it at home to the very people that need it like you have talked to here today and let's keep some of these programs intact for our own people.

I am sure this is probably easier than it sounds and in my evaluation of looking at this whole situation, I think we are going to have to have some tax cuts and I think we are going to have to have some budget increases. I know there are people who are going to disagree with me and I am not sure how much of either one, but I am suggesting that if we do need, when we finish this selective shakeout of the budget, that we do need some tax increase, that we have a look at imported energy because the price of imported energy is going down.

It looks to me like we could have a very small tax on imported energy. We are probably in danger of becoming energy sloppy again, if we see the price go way down.

Farmers are big users of energy and I know what it is going to do with us. Our chemicals are energy based, our machines run on energy, but I would be willing to consider that as one alternative for tax increase.

Now, we have one immediate problem and that is that there is a great deal of confusion around the current farm program, the rules, and with Gramm-Rudman coming in on it, the farmers now are at the point where they need to buy fertilizer, they need to buy seed. Their banker needs to have some kind of budget.

We can't make a budget if we don't have something to go on. I am simply saying that I would hope that Congress would get back to business and make some solid decisions that will last longer than the time it takes to make them because we certainly need them to make our plans, to do our budgets on, and as we look at the markets, the market looks like a bowl full of jello.

Our people who normally buy from us at certain time of the year in other countries are sitting back waiting and saying, well, now, should we wait until tomorrow, are they going to change the rules, and is the President going to make it cheaper for us to buy it tomorrow, and we need to settle some of this and we can't settle it next summer. It needs to be settled now.

I thank you for the opportunity to be here and I wish you God's wisdom and his speed in the work that you have to do. Thank you.

[Testimony resumes on p. 190.]

[The prepared statement of Mr. Arndt follows:]

COMMENTS ON THE PROPOSED BUDGET FOR 1986-1987 FY

BY

RUSSELL ARNDT
AGRICULTURAL PRODUCER

BEFORE

THE BUDGET COMMITTEE

OF THE

UNITED STATES HOUSE OF REPRESENTATIVES

ON

FEBRUARY 10, 1986

I AM RUSSELL ARNDT OF LACROSSE INDIANA FARMING IN PARTNERSHIP WITH TWO SONS AND THEIR FAMILIES. I APPRECIATE THE OPPORTUNITY TO PARTICIPATE IN THIS HEARING TODAY. I WOULD LIKE TO GIVE YOU MY REACTION TO THE LIMITED INFORMATION THAT HAS BEEN AVAILABLE TO ME.

AGRICULTURE IS UNDER INTENSE STRESS AS A RESULT OF THE LARGE DROP IN THE PRICE OF GRAIN, OIL SEED AND FIBER CROPS. THIS DROP IS DUE TO INCREASED PRODUCTION AROUND THE WORLD AND THE NEED FOR MANY COUNTRIES TO EXPORT THEIR SURPLUS CROPS AT ANY PRICE, IN AN EFFORT TO GENERATE FOREIGN CURRENCY TO USE IN PAYMENT OF THEIR PREVIOUS BORROWING.

THIS STRESS IS NOT ONLY BEING EXPERIENCED BY PRIMARY PRODUCERS OF FOOD AND FIBER BUT ALSO BY THE WHOLE AGRIBUSINESS COMMUNITY. THIS IS ESPECIALLY TRUE IN SMALL TOWNS IN STRICTLY RURAL COMMUNITIES. IT IS IN THIS SETTING THAT I MUST BE MOST CONCERNED WHEN CONSIDERING THE EFFECTS OF THE PROPOSED WHITE HOUSE BUDGET. ANY

ADDITIONAL CUTS IN INCOME OR SERVICES TO THE AGRICULTURAL COMMUNITY WILL EFFECT THE STABILITY OF SOMEONE IN THE SYSTEM.

THERE ARE A NUMBER OF AREAS OF CUTS IN THE BUDGET THAT ARE DESERVING OF DISCUSSION, HOWEVER TIME DOES NOT PERMIT US TO DISCUSS ALL OF THEM, THEREFORE I WOULD LIKE TO TOUCH BRIEFLY ON A FEW.

THE ADMINISTRATION HAS INDICATED THAT EXPORTS ARE OF PRIME IMPORTANCE TO THE FUTURE OF OUR BALANCE OF TRADE AND TO THE PRICE STRUCTURE OF AGRICULTURE, YET IN THIS BUDGET WE SEE A CUT IN SOME OF THE VERY PROGRAMS CREATED TO HELP CORRECT THIS PROBLEM. THE CUT BACKS IN EXPORT ASSISTANCE SEEM TO ME TO BE VERY SHORT SIGHTED FOR THIS REASON. THESE PROGRAMS WERE DESIGNED TO BE USED TO MEET THE SUBSIDIES USED BY OTHER COUNTRIES IN THE WORLD MARKET. THE RESULT OF THESE CUTS WILL BE THE LOWERING OF THE NUMBER OF TONS OF GRAIN WE EXPORT. THE FALLACY OF THIS IS THAT THE MORE WE LOWER THE BUDGET FOR THIS PROGRAM THE LONGER IT WILL TAKE TO REGAIN OUR MARKET SHARE AND AS A RESULT THE LONGER IT WILL BE NECESSARY TO CARRY ON WITH DOMESTIC SUBSIDIES TO PRODUCERS. YOU MADE A DECISION ON THIS WHEN YOU PASSED THE AGRICULTURAL BILL IN DECEMBER, NOW LET US LEAVE IT ALONE.

I THINK YOU NEED TO LOOK CAREFULLY AT THE PHASE OUT OF THE CROP INSURANCE SUBSIDY BY 1991. MY GUESS IS THAT IF HISTORY IS CORRECT THERE WILL BE VERY FEW FARMERS USING THE INSURANCE BY THAT TIME BECAUSE OF IT'S COST. IF IT IS USED IT WILL RESULT IN HIGHER PRODUCTION COST AND THUS LOWER PROFI OR LARGER LOSS.

I AM REALLY ALARMED ABOUT THE 57% CUT IN THE EXTENSION SERVICE BUDGET. THE EXTENSION SERVICE PLAYS A VERY IMPORTANT ROLE IN TECHNOLOGY TRANSFER, IT IS THE BACK BONE OF ADULT AGRICULTURAL EDUCATION IN OUR RURAL AREAS. I HAVE ENCLOSED COPIES OF TWO PROGRAMS CURRENTLY BEING MADE AVAILABLE TO RURAL PEOPLE THAT ARE TIMELY AND PROVIDE ASSISTANCE TO FARM FAMILIES DURING TIMES OF STRESS AND LOW INCOME. ONE DEALS DIRECTLY WITH STRESS AND THE OTHER WITH HELPFUL ANALYSIS OF THE FARMERS OWN INCOME AND EXPENSES. THESE ARE ONLY TWO OF THE MANY PROGRAMS AND EDUCATIONAL SERVICES BEING OFFERED BY EXTENSION. YOU WILL NOTE THAT ONE OF THESE PROGRAMS IS FREE AND THE OTHER CARRIES A MODEST CHARGE. THE SHRINKING OF THIS AGENCY AT THIS TIME WOULD BE A SERIOUS BLOW TO THE AGRICULTURAL COMMUNITY.

I HAVE ALSO ATTACHED AND WOULD LIKE TO HAVE MADE A PART OF THE RECORD, PARTS OF A REPORT FROM THE AGRICULTURAL ECONOMICS FACULTY OF PURDUE UNIVERSITY DATED JULY 1985. THERE ARE TWO TABLES I THINK YOU WILL FIND INFORMATIVE. THE FIRST TABLE SHOWS THE CHARACTERISTICS OF THE FARMS IN THE SURVEY. THE SECOND TABLE I THINK IS THE MOST REVEALING, IT SHOWS THAT 73.8% OF THOSE IN THE SURVEY HAD NET INCOMES RANGING FROM NET LOSS TO $9,999.00. KEEP IN MIND THIS WAS 1984 INCOME AND WE HAVE HAD SOME MORE DECLINE SINCE THEN.

THE THIRD TABLE IS THE RESULT OF SIX SEPARATE SURVEYS OVER SIX OTHER LOCATIONS SOME OF WHICH OVERLAP. THIS TABLE INDICATES THAT ONLY ABOUT ONE THIRD OF THE FARMERS HAVE WHAT IS CONSIDERED LOW DEBT OR ZERO DEBT.

THE LAST OF THE FOUR TABLES INCLUDED SHOWS THE ADJUSTMENTS BEING MADE OR PLANNED IN AN EFFORT TO SURVIVE.

SECRETARY JOHN BLOCK HAS STATED A NUMBER OF TIMES THAT SOIL CONSERVATION IS ONE OF OUR MOST IMPORTANT PRIORITIES, IF THIS IS TRUE THEN WHY IS THE CONSERVATION PROGRAM IN THE ASCS BUDGET BEING ELIMINATED AND THE SOIL CONSERVATION SERVICE BUDGET BEING CUT BY 20%, MOST OF WHICH IS PERSONNEL. THIS WILL INDEED GREATLY REDUCE THE EFFECTIVENESS OF THE PROGRAM.

A SHORT COMMENT ABOUT HIGHER GRAIN INSPECTION FEES, HISTORY SHOWS THAT AN INCREASE IN THE FEE SIMPLY MEANS THAT THE TERMINAL GRAIN BUYER PAYS THE FARMER LESS FOR HIS GRAIN. THE GRAIN COMPANY DOES NOT LOWER ITS MARGIN PER BU., NOR DOES THE COUNTRY BUYING THE GRAIN PAY MORE BECAUSE THE INSPECTION FEE INCREASES.

MY FIRST HAND EVALUATION OF THIS BUDGET IS THAT IT WILL RESULT IN LOWER FARM INCOME, MORE STRESS, MORE BANKRUPTCIES, AND MORE RURAL BANKS CLOSED.

SO WHAT IS THE ANSWER TO A BALANCED BUDGET? IT CERTAINLY MUST NOT BE EASY OR WE WOULD HAVE THE ANSWER IN PLACE WITHOUT ALL THE CONFUSION THAT NOW SURROUNDS US. WELL HERE IS THIS OLD FARMERS BARN YARD VERSION OF HOW I WOULD APPROACH THE PROBLEM.

IT SEEMS TO ME THAT SOME CUTS ARE NECESSARY AND SHOULD BE MADE HOWEVER WE SHOULD LOOK CAREFULLY AT THE EFFECT OF THE CUT ON BOTH THE PEOPLE AND THE ECONOMY. THE CUTS MUST BE SELECTIVE. WE CAN'T WEED A GARDEN BY PULLING UP EVERY FIFTH PLANT IN THE ROW BECAUSE

MANY OF THESE WILL BE THE PRODUCTIVE PLANTS THAT WE NEED. NOR CAN WE ACCOMPLISH THE TASK BY MOWING OFF THE TOP FOUR INCHES OF EVERY PLANT IN THE GARDEN. LIKE WISE WE NEED TO FIND THE WEEDS IN THE BUDGET AND REMOVE THEM SO THAT THE REST OF THE CROP MAY FLOURISH. IT MUST BE DONE BY SOMEONE WHO CAN TELL WEEDS FROM CROP. MY SECOND THOUGHTS THAT SOME CUTS IN DEFENSE SPENDING MUST BE MADE AND THIS IS MY APPROACH. WHY SHOULD WE SPEND OUR MONEY AND HUMAN RESOURCES PROTECTING THE FREE WORLD WHILE THEY GOUGE US LEFT AND RIGHT WITH UNFAIR TRADE PRACTICES, NOT ONLY IN AGRICULTURE BUT ALSO IN MANUFACTURING GOODS AND SERVICES. I AM NOT TALKING ABOUT THE STRUGGLING DEVELOPING NATIONS, RATHER OTHER DEVELOPED NATIONS WE PROTECTED DURING WORLD WAR TWO AND NATIONS WE WARRED WITH AND REBUILT AFTER THE STRUGGLE.

KOREA WHO NOW WANTS TO SELL US LOW PRICED CARS WHILE ANNOUNCING AT THE SAME TIME THEY ARE GOING TO INCREASE THEIR PURCHASES OF CORN FROM CHINA. THE SAME COUNTRY WE ARE HELPING PROTECT WITH FORTY THOUSAND TROOPS. PLACE MORE OF THE DEFENSE RESPONSIBILITY ON THESE NATIONS AND CUT THE DEFENSE BUDGET. IF STAR WARS IS SO IMPORTANT THEN RETAIN IT, BUT GIVE MORE OF THE SMALL ARMS AND LONG TIME STANDARD DEFENSE SYSTEM RESPONSIBILITY TO THESE NATIONS.

YES I'M SURE THIS SOUNDS EASIER THAN IT IS, HOWEVER I THINK IT SHOULD BE GIVEN CONSIDERATION.

ENERGY DOES CONSTITUTE A MAJOR EXPENSE IN THE GROWING AND PROCESSING OF FOOD, HOWEVER IF SOME DEGREE OF TAX INCREASE IS NECESSARY, THE PLACING OF A REASONABLE TAX ON IMPORTED ENERGY

WOULD SEEM TO JUSTIFY CONSIDERATION. I FEAR THAT WITH LOWER ENERGY PRICES AND LESS AND LESS INCENTIVE TO SAVE WE WILL AGAIN BECOME AN ENERGY SLOPPY NATION AND IN A FEW YEARS FIND OURSELVES AGAIN AT THE MERCY OF SOME RATHER UNFRIENDLY NATIONS.

NOW BACK TO THE IMMEDIATE BUDGET PROBLEMS. THE UNCERTAINTY THAT NOW CLOUDS THE NEW FARM PROGRAM ALONG WITH THE FACT THAT THE TIME IS HERE TO ORDER SUPPLIES AND MAKE ARRANGEMENTS FOR FINAL CREDIT NEEDS, IS INDEED VERY UPSETTING TO FARMERS, SUPPLIERS, AND BANKERS. THE GREATEST NEED WE HAVE RIGHT NOW IS FOR CONGRESS TO GET BACK TO WORK AND MAKE SOME DECISIONS THAT ARE GOING TO LAST LONGER THAT THE TIME IT TAKES TO MAKE THEM. PLANNING WITH ANY DEGREE OF ACCURACY IS IMPOSSIBLE. THE MARKETS ARE MOVING LIKE A BOWL FULL OF JELLO WITH EVERY WORD THAT COMES FROM WASHINGTON. OUR CUSTOMER DON'T KNOW IF THEY SHOULD BUY OR WAIT TILL TOMORROW, OR NEXT WEEK, OR NEXT SUMMER.

WE ARE IN NEED OF SOME RESPONSIBLE DECISIONS AND NOT NEXT SUMMER. WE NEED THEM NOW!

I WISH TO THANK YOU AGAIN FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY AND I WISH YOU GODS WISDOM AND SPEED IN YOUR TASK.

I SHALL BE GLAD TO VISIT WITH YOU AFTER THE HEARING IF YOU WISH.

✓ Table 1. Characteristics of Respondents Relating to Age, Experience as Farm Operator, Acres Farmed, and Source of Income, 1985.

Characteristic of respondents	Average value of characteristics for respondents by geographic area				Total number of usable responses for state*
	North	Central	South	State	
Age (years)	52.1	51.0	50.8	51.2	1,742
Experience as farm operator (years)	26.1	25.0	26.5	25.8	1,685
Number of acres in farm operation					
Owned	177.3	172.7	158.4	169.4	
Rented	163.9	213.8	112.8	169.6	
Owned and rented	341.2	386.5	271.2	339.0	1,689
Percentage of gross farm income obtained from**					
Crops	63.7	71.8	49.5	62.9	
Hogs	12.0	13.8	12.4	12.9	
Beef cattle	5.5	8.9	28.0	13.9	
Dairy	13.2	2.2	4.7	5.7	
Other	5.6	3.3	5.4	4.6	
Total	100.0	100.0	100.0	100.0	1,630

*Some responses for items were not usable because of missing numbers, inconsistency, and other reasons.

**Gross farm income was defined to include income obtained from government payments.

✓ Table 2. Gross and Net Farm Income for Respondents, 1984.

Farm income category	Percentage of respondents in income category by geographic area*				Total number of usable responses for state
	North	Central	South	State	
Gross income, 1984					
Categories **					
Less than $10,000	16.7	18.4	43.3	25.9	
$10,000 to $19,999	14.6	10.3	14.0	12.6	
$20,000 to $39,999	16.5	12.9	12.5	13.7	
$40,000 to $99,999	25.4	26.0	15.3	22.4	
$100,000 to $249,999	18.1	23.4	9.5	17.6	
Over $250,000	8.7	8.9	5.4	7.8	
Totals	100.0	99.9	100.0	100.0	1,688
Net income, 1984					
Categories **					
Net loss	30.0	33.1	43.6	35.7	
$0 to $4,999	24.7	22.0	29.1	24.9	
$5,000 to $9,999	16.2	12.7	11.4	13.2	
$10,000 to $19,999	15.3	14.0	9.0	12.7	
$20,000 to $49,999	11.1	12.9	5.5	10.1	
Over $50,000	2.7	5.3	1.3	3.4	
Totals	100.0	100.0	99.9	100.0	1,660

73.8%

60.6% under $5,000 Income Net

*Percentages may not add to 100.0 because of rounding error.

**Income categories were defined to include income obtained from government payments.

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Table 6. Comparative Farm Financial Statistics for the U. S., Central U. S., Indiana, and Selected Other States.

Geographic area	Source	Date for which figures apply	Percent of farmers with debt-asset ratios exceeding 40%	Percent of farmers with debt-asset ratios exceeding 70%	Percent of farmers with zero or low debt	Nonfarm income of farmers as percent of total income
U. S.	Harrington [3]	January 1985	34%[a]	14%[a]	NA	NA
Central U. S.	*Farm Journal* [2]	December 1984	42	21	32[c]	NA
Indiana	This article	May 1985	32 40[b]	13 15[b]	35[d]	38
Iowa	Jolly & Barkema [4]	March 1985	32	11	15[e]	6[e]
Missouri	Dept. Ag. Econ., UMC [1]	October 1984	NA	NA	42[d]	63[f]
North Dakota	N. D. Crop & Livestock Reporting Service [6]	January 1985	37	16	24[d]	12

[a] Debt-asset ratios for farms with sales of $50,000 to $500,000 per year.

[b] Numbers on second line are debt-asset ratios for Indiana respondents with gross incomes exceeding $40,000 per year.

[c] Percent of farmers with debt-asset ratios of 0 to 10%.

[d] Percent of farmers with zero debt.

[e] Estimated by the authors from figures obtained from an Iowa farm finance survey [4].

[f] Represents nonfarm income expressed as a percentage of the sum of net farm income plus nonfarm income. Thus, the figure is not directly comparable to the nonfarm income percentages for Indiana, North Dakota and Iowa.

NA means not available.

Table 7. Adjustments Made by Respondents in Farming Operations to Deal with the Farm Financial Situation.

Adjustment item and year	Percentage of total Adjustments accounted for by item by geographical area: North	Central	South	State	Total number of usable responses for state
Last year					
Participate in government programs	23.7	22.5	19.2	21.8	
Keep more complete records	12.9	14.3	13.0	13.6	
Increase off farm work	13.1	9.9	12.4	11.3	
Reduce debt	8.7	10.2	8.4	9.3	
Develop financial budgets	8.5	9.4	8.9	9.1	
Buy crop insurance	5.2	6.9	7.2	6.6	
Reduce cash rent paid	5.4	5.9	5.3	5.6	
Farm less land	4.4	5.0	6.9	5.4	
Other adjustments*	18.1	15.9	18.7	17.3	
Totals	100.0	100.0	100.0	100.0	1,130
Next year					
Increase off farm work	22.8	22.8	21.2	22.3	
Reduce debt	20.6	20.8	15.7	19.2	
Keep more complete records	7.1	9.5	10.5	9.2	
Participate in government programs	7.9	7.5	8.2	7.8	
Reduce machinery inventory	7.7	7.5	7.8	7.6	
Reduce cash rent paid	5.0	6.8	6.5	6.3	
Sell land	7.1	4.4	5.9	5.5	
Develop financial budgets	5.8	5.3	5.2	5.4	
Farm less land	6.4	3.4	7.3	5.3	
Other adjustments*	9.6	12.0	11.7	11.4	
Totals	100.0	100.0	100.0	100.0	929

*Adjustments which accounted for less than 5 percent of the state total.

The CHAIRMAN. Thank you, Mr. Arndt. May I ask you a question?

Mr. ARNDT. Sure.

The CHAIRMAN. Where do you live?

Mr. ARNDT. In northern Indiana, in the Kankankee Valley.

The CHAIRMAN. You came all the way from northern Indiana to be here today?

Mr. ARNDT. Yes, sir.

The CHAIRMAN. How did you get here?

Mr. ARNDT. We drove part way and rode the electric train part way.

The CHAIRMAN. You drove part of the way? How far did you drive?

Mr. ARNDT. I did not drive as far as Jean drove, but I came about 40-some miles.

The CHAIRMAN. Then you caught a train?

Mr. ARNDT. Then we caught the Southshore, which is also in danger of not running because of funding.

The CHAIRMAN. That is one of those train sets the President talked about. The Government has to get rid of its train sets.

Well, I want to just thank you because I knew you did come from quite a way and you have been here a long time. I want to thank you for that testimony.

At this time, Mrs. Jean Leising. She comes from a longer way, according to Congressman Russo. Would you at this time summarize your testimony, and then we will get to the questions.

STATEMENT OF JEAN A. LEISING, INDIANA VICE PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, FAMILY FARMER

Mrs. LEISING. Mr. Chairman, and committee members, thank you for the opportunity to allow me to come today. I did come from southern Indiana. It was about 200 miles from my house to Russ' before we got the train.

In 1980, I was widowed and took over the management of my farming operation. I have 825 crop acres, two full-time employees and hog and beef cattle operations. Although I belong to various farm organizations, I am really representing my own personal views today and I hope perhaps, some of those of my friends and neighbors, as well.

The proposed budget hits the farmer right now at a time when there is a lot of uncertainty and confusion out in the country. You know, we really still don't have the details for the 1986 farm program, which is a result of the Food and Security Act of 1985.

Of course, that farm bill was impacted then by the Gramm-Rudman legislation which ultimately to us, means that now I am here today talking about the proposed 1987 budget, when realistically, we really don't know what we are doing for 1986.

It is hard putting the tough part in reality. Now is the time when we need to finalize our cash flows for our lenders. It is the time when we need to finalize the fertilizers, herbicide, and seed orders and it is impossible for us to do that.

So I think that we really need to get across to all of you the importance of priorities in legislation and what it means to some of us when we have to live with what has been enacted. It is difficult to make a wise decision with your landlord, for instance, when you negotiate for that farm ground in October and here it is now February, and I really still don't know the details of the program.

It is like running a business in the dark and it is hard. In looking, though, at the proposed budget, and that is what we are here for today, it is important, I think, for all of us to realize the impact of agriculture on America as a nation.

Although there are only about 2 percent of us left as farmers, we are affecting over 20 percent of the gross national product. One out of every five jobs in America right now are linked in some way to agriculture.

I think that this so often is something that we all forget about. You forget about it when you are out in the middle of the boonies in southern Indiana. You really don't think about the impact we have on a lot of other professions and jobs.

Agriculture, even with our depressed export market, still has a positive trade surplus and in fiscal year 1984 there was a trade surplus of $11.4 billion. I think that is a positive thing that we need to note and take a look at when there is such an awful trade deficit.

We really need to be promoting the agricultural products more. Maybe it would help clear up this trade deficit. I don't have the feeling when I am out in the country there is as much effort being made in trade as what there could be perhaps.

The American farmer now realizes the need for balancing the Nation's financial budget. Not only the trade deficit do we worry about, but we worry about the imbalance in the budget, the deficit. I think we are willing as American farmers to take a share of whatever has to be, to get that in line, but you see the President's proposed budget has an overall decrease for agriculture of 24.7 percent.

It just seems like an awfully great share of the decrease when you look at it in that perspective. I want to just specifically point out, I guess, four things.

There are lots of things, and I don't want to tie up your time anymore than I already have, but I think that one of the four things that clearly needs to be looked at is that we need to be sure there are no further changes in the Commodity Price Support Program, that was defined in the Food and Security Act.

For instance, the corn loan was set at $2.40. Now we are looking at a $1.92. Now we are looking at however, the Gramm-Rudman will impact it. So you see, when we are trying to manage an operation with those kinds of changes all within 1 year, it is really difficult to figure out how we are going to cash flow.

The average price of corn production, for instance, per bushel according to Purdue right now has a range of $2.41 to $3.12. When you get into that range, it is true that we are becoming more and more efficient at production, but still we have to live with the cost of production as is now and with the loan rate at $1.92 or less, you can see that we are very dependent upon whatever deficiency payment we might still receive following the Gramm-Rudman cuts. It is only through those deficiency payments that some of us that have survived the previous financial hassles of the eighties will survive.

Farm credit is my second point that I want to make. Farm credit is so essential that we have access to a steady source of farm credit. The farm credit system which is made up by the Federal land bank and production credit associations must remain viable.

There is much concern in the country about we as borrowers who are automatic stockholders in that organization. There is a required stock purchase as part of your borrowing money, and there is much concern about the credibility of that stock.

I understand that there was a Farm Credit Act amendment enacted in 1985 that is supposed to sort of be a backup for the farm credit system. It is very important that whatever cuts are made, that that stays in place so that system does not go down, because if it does, many farmers will go with it.

Of course, then there are also the proposed cuts for the Farmers Home Administration and that will affect many farmers also. But I believe that in my own situation I would be more concerned about the farm credit system because you see that is the system that those of us who were stable farmers deal with.

We are the people that have survived the previous crunches and if that system goes down, I think agriculture as a whole is going to make dramatic, drastic changes or will have to. According to the farm finance survey that was done in 1985 in Indiana, about one-third of those survey respondents face serious, extreme or technical insolvency. So you see, there are many people involved here. It is just not a few that are really concerned.

The third point that I would like to make, and Mr. Arndt mentioned it also, are the extreme cuts that are proposed for the Extension Service. The 57-percent cut there seems devastating to me as a farmer because that program has been an excellent source of education and information for most of rural America.

Not only we as farmers, but also the youth of rural America through the 4-H programs and the home economics programs for the women in rural areas. I know myself I can personally attest to the help that I received from the Extension Service when I was widowed in 1980 suddenly, when my husband was killed in a farm accident.

I decided to go on with that farming operation and there were some areas that I certainly needed continuing education. I had been a nurse by profession and had not had a lot of agricultural education. One of the first things that Purdue was able to help me with was there was an economist from there that helped me do a 3-year plan, business projection plan, so that I could get my credit reestablished in my own name with my farm lender.

Although my credit had been held jointly with my husband, I was very surprised to find that that was not the case when you were suddenly widowed. It was a matter of reestablishing your own line which makes you very aware of maybe perhaps why some women are still out there screaming about rights or whatever.

I think that it is important that also to realize the Extension Service is a benefit to farmers indirectly. Many farmers might not realize the total benefit of the Extension Service because some of the information that is passed down from the Extension Service is done indirectly through our business contacts, our representatives from various companies who are a source of information and you assume it is from them, but really if you searched out the research and whatever, it has been done through the university.

The fourth point I want to make is that I really feel they should go cautiously in any reductions in the soil and water conservation budget. Many of us who are concerned about conservation and preserving our Nation's resources for future generations realize the importance of those programs not being done away with.

You know, it would be a long-term benefit. It is not something that we will see change in the near term. When they cut that money out for the next 5 years, nobody is even going to know, but in the long term, people will know. You see people in my generation and people in Russ' generation, they have developed good, sound conservation practices and are still developing them.

What will happen to the younger people that aren't exposed to that same kind of information and advice? So it is important those things not be done away with.

In summary, I just want to say I think agriculture is willing to take their share of necessary spending cuts, that the budget deficit does need to be controlled, but remember that as you are making these budget cuts, and I really, after sitting here today and listening, I don't envy you guys at all, but try somehow to do it by not allowing such a large portion of the budget to remain untouchable.

I am not well versed enough to say specifically what budget or whose budget you should touch, but it just seems to me that for agriculture to take a 24.7-percent cut when we really in 1986 fiscal year budget, we were only 2.6 percent of the total budget and the proposed 1987 budget has us reduced to 2 percent, I think it seems unfair. All of us as consumers in the United States should appreciate the cheap food source, the cheap supply of food that we have.

Comparing our Nation with other nations, the average consumer here spends only 13.6 percent of their dollar toward food, and if you just compare that with a couple of other nations: Japan spends 23 percent of their dollar and Russia 34 percent; and India, 59 percent. So even myself as a farmer/consumer, I have to remind myself sometimes what a great buy we have and what a steady, great food source we have here.

Certainly I would hate to see that change in any way. Thank you for your time.

[The prepared statement of Mrs. Leising follows:]

PREPARED STATEMENT OF JEAN A. LEISING

I, Jean Leising, am a farmer and mother of three children in Oldenburg, Indiana, which is located in Franklin County in southeastern Indiana. I started farming with my husband in 1969 when we were married. Since 1980 when I was widowed, I manage our farming operation with the majority of the physical work being done by two full-time employees. We presently have a planting projection for 1986 of 825 crop acres, primarily corn, which will be grown on property that I own as well as tillable ground on sixteen other farms that I rent from those property owners. In addition, we have a 75-sow farrow to finish hog operation, and a 45-brood cow beef cattle herd.

I am a member of the following farm organizations: Corn Grower's Association, Farm Bureau Inc., Pork Producers, and the Soybean Association. I am a borrower of the Farm Credit System and a member of our local rural electric cooperative. I am also a past board member of our county Extension Service and currently a 4-H leader. Today, however, I represent my personal views of the present farming situation and perhaps those of some of my neighbors and friends, and not specifically those of any of the above organizations.

What are the present concerns and feelings today out in the country regarding agriculture and the dilemma that we seem to have encountered? First of all, I want to address the uncertainty and confusion that most farmers are experiencing in attempting to get the information necessary to manage their farms under the new Food and Security Act of 1985. Perhaps, the fact that details have not reached the Agricultural Stabilization and Conservation Service Offices in our various communities on the 1986 farm program is a result of the late date that the Food and Security Act was signed, the resignation of our Secretary of Agriculture, or the uncertainty of the issues raised by the passing of the Gramm-Rudman. Whatever the reasons, it is important for me to help you realize the significance of the average farmer not having this information. With approximately 30 days remaining before the beginning of field work, and approximately 70 days before the beginning of corn planting it is essential this information be made available immediately so that farmers can make their final plans for the 1986 crop year. It has been impossible in my own operation to finalize a cash flow for my lender, to complete the final order for seed, fertilizer, herbicides and insecticides, as well as impossible to conclude negotiations with the present landowners from whom I rent ground. The reason I spoke about this lack of information prior to discussing the 1987 budget is that it is critical that we recognize priorities when dealing with agriculture.

What significance is agriculture to the United States today? American agriculture has been a very productive sector in our Nation, and perhaps impacts the overall economy more than most of us as consumers, farmers, or legislators seem to recognize. While farmers are so few in number, about 2 percent of the total population, we are our Nation's largest industry. In looking at the various phases, one out of every five American workers is employed as a result of agriculture. Over 20 percent of our Gross National Product (GNP) is generated by agriculture.

At a time when much concern should be centered on the trade deficit, agriculture even with the present depressed export market still showed an agricultural trade surplus of $11.4 billion in fiscal 1985, compared to an overall nonagricultural trade deficit of a negative 134.5 billion. Statistics obtained from Purdue University show a dramatic increase in this overall nonagricultural trade deficit since 1981. In 1981, there was a positive agricultural trade surplus of $26.6 billion and a negative overall nonagricultural balance of $52 billion. Or in summary, a net negative trade imbalance of $25.4 billion in 1981 compared to a net negative imbalance of $123.0 billion in 1985. There has never been a time when expansion of our agricultural export market would be more beneficial to our farmers, as well as to our government's trade stability.

The U.S. consumer has been a very fortunate individual compared to consumers from other countries. According to the publication, *Purdue's Man With the Answers*, the U.S. consumer spends only 13.6 percent of his dollar for food compared to 19.3 percent in the United Kingdom, 22 percent in West Germany, 23 percent in Japan, 34 percent in the Soviet Union, and 59 percent in India. This is directly related to the productivity of the American farmer.

The American farmer recognizes the need for balancing of the nation's budget, and is willing to give toward the lowering of the overall budget deficit. This proposed cut however, comes at a time when agriculture has already suffered severe financial blows. Many things have contributed to the farmer's present financial instability. Some of those items are the decline of the export market following the embargo as well as pressure from the strength of the U.S. dollar, deflation of farm real estate and equipment values, high interest rates (real interest rates ranging from a negative 4 percent during the high inflationary period to a positive 10 percent, and adverse weather conditions in many areas of the United States.

So what kind of concern does the average farmer have when he sees a decrease of 24.7 percent in the agriculture function budget or $19.5 billion proposed for 1987, compared to $25.9 billion in 1986. Or looking comparatively, the 1987 proposal for agriculture would be 2 percent of the the total $994 billion budget, compared to the 1986 figure that reflects 2.6 percent of the $979.9 billion budget. Should agriculture be cut so drastically, when we are such a small percentage of the overall budget, and yet so significant to the future and stability of our Nation?

It is imperative that no changes be made in the commodity price support program as defined in the Food and Security Act of 1985. Target prices must remain intact, so that the deficiency payment will allow for the cash flow of farming operations. The lowering of the loan rate should play an important role in expanding our export market, however, the average farmer cannot survive on sales of $1.92 to $2 per bushel corn. According to recent figures from Purdue University, the average cost of production of a bushel of corn in Indiana has a range of $2.41 to $3.12. In my particular operation, the average cost is $2.80 per bushel. Why is a target price of

$3.03 necessary? Because after idling 20 percent of one's ground without a paid diversion, the target price actually is a value of approximately $2.65 per bushel.

A dependable source of farm credit is essential to the American farmer today. The Farm Credit System (Federal Land Bank—Production Credit Association) must remain viable. Funds must be available in the event the Farm Credit System would be unable to meet their commitments, as defined in the Farm Credit Act Amendments of 1985.

According to the Indiana Farm Finance Survey of 1985, about one-third of the survey respondents faced serious financial problems (40 to 70 percent debt-asset ratio), extreme financial problems (70 to 100 percent debt-asset ratio), or technical insolvency (over 100 percent debt-asset ratio).

In light of this, the proposed cuts in the Farmer's Home Administration is also of concern. Reduction of operating loans from $4.7 billion to $4 billion, farm ownership loans being phased out from $684 million to zero, and the phaseout of emergency disaster loans from $1.2 billion to zero will be damaging to those directly affected. A proposed reduction of employees from 12,400 to 11,000 will further slow down the loan procedure.

At a time, as was mentioned, when exports are more important than ever it is difficult to stand by and watch the reduction of short term export credit guarantees from $5 billion to $3 billion or a 40 percent cut. In addition, the increase in the guarantee fees of less than 1 percent to 5 percent for the short-term credit guarantees will also be detrimental. The proposed budget completely eliminates the intermediate export credit guarantee program. We do not need additional pressure on the export market.

The imposition of user fees as a source of revenue also hits agriculture at a time when the farmer does not need additional costs. Through the user fees to be imposed on grain inspection, market news, veterinary and laboratory, and packer and stockyard inspections, it is estimated that $69 million will be earned in increased revenues.

The 57 percent reduction in the Cooperative Extension Service from $328 million to $140 million in 1987 seems devastating to a program that has been an excellent source of education for most of rural America. Most counties presently have available an agricultural agent, youth agent (4-H), and a home economics agent. With proposed cuts, reduction to one agent or actual closings of county offices with sharing of services may be necessary. Programs that would be totally eliminated would be the Expanded Food and Nutrition Program, Integrated Pest Management, Special Farm Safety efforts, and Renewable Resource Extension. The Extension would lose much of its current impact in assisting with financial stress problems of farmers, farm families, and rural communities, as well as water quality management, and nutrition concerns. For myself, Extension was my source of education when my husband was killed suddenly in 1980. I was an industrial nurse by profession, and needed access to lots of information in order to take over the management of the farm.

Although Research has not been targeted, researchers will devote more time to technology transfer without the Extension network.

The significance of the use of Extension directly and indirectly by farmer producers is very important. Many farmers do not realize that much of the indirect information they receive from various publications and business suppliers has ultimately been passed down through the Extension Service.

The reduction in the Soil and Water Conservation's budget from $571 million in 1986 to $457 million in 1987 by 20 percent comes at a time when there seemed to be an increasing interest in conserving our nation's resources. Also the discontinuation of the Agricultural Stabilization and Conservation Service's conservation programs from $111 million in 1986 to zero in 1987 seems disappointing to those of us interested in conserving our resources for future generations.

The proposed phase out of the Rural Electric Administration and rural electric and telephone low interest rate loans over the next 5 years can only lead to increased utility costs for those in rural America.

In summary, agriculture is willing to take their share of necessary spending cuts. The budget deficit does need to be controlled. But one must remember, if you are going to make budget cuts, you can't do it by making a large portion of the budget untouchable. Thank you.

The **Chairman**. Thank you very much, Mrs. Leising, for your testimony. You stated that we have a tough job ahead of us. While listening to your testimony, and reading it, I learned that you are a mother of three. You took over after being widowed and somehow you stuck to the farm, to the Earth and kept it going. Now you are going back to school, and you are telling us we have got a tough job.

I want to commend you for being what the spirit of this country is all about. Not only that, but you have come—I just was talking to Congressman Russo about my geography, and you came all the way from the southeastern part of Indiana, all the way across to the northwestern part of Indiana, and then over into Illinois. So I don't have any questions of you and Mr. Arndt.

I would just say thank you for letting me know what is happening out there where you have to work and where you feed this country. I am a city boy. I represent a city district and sometimes we folks in the city think eggs just pop on the shelf maybe the night before, the chicken left them and laid them right in the supermarket.

So it is refreshing to hear about what is happening with those people who are really out there making it happen, keeping us a well-fed Nation and giving us a surplus so we can also provide some help for the rest of the world.

Congressman Russo.

Mr. Russo. Thank you very much, Mr. Gray.

Again, I thank the two of you for coming to give another perspective at these hearings. This morning you sat through a lot of the domestic side of the problems that cities and counties face and various support groups and services. Also, this budget touches everybody in this country, except the Defense Department. It does not do anything to them, does not do anything to foreign aid, but does something to everything else.

I think you made a very telling point, Jean, when you said you would give us a chance to figure out what the past law was so we know what to do in the future. I think one of the problems we have had with this administration, even in the tax area, is that every year they are changing something so that people are not, cannot rely on this year's set of facts to apply to next year's set of facts.

So the problem that you face as farmers is that you don't know what he is going to do next year. Is he going to give more money to the extension or less moneys? Cut price supports down? What are the loan prices going to be. You don't have any reliable consistent Government policy.

I think that is horrible and I think one of the things that people need, whether it is business people, farmers, or consumers, is to know exactly what to expect. We have so much inconsistency with this administration in dealing with the domestic side of the budget that it is even hard for those of us who are legislators to be able to predict to you what is going to happen within the next year.

I think also with the latest farm bill you find a tremendous coalition of city folk and consumers supporting farmers like you have never seen before. That farm bill passed overwhelmingly and I think it is important those of you who work in the farm area understand that there is a huge coalition and a greater understanding of the needs of the family farmer than there was in the past.

I think your statement about how much consumers pay in this country as a percentage of the dollar is outstanding and you said a lot of other very important things, and I think you are right. Sometimes we take it for granted how cheap food is in this country.

As someone who serves on the Trade Subcommittee, one of the few bright spots of foreign trade is agricultural products. In fact, if the dollar was not so strong, we probably would be selling a heck of a lot more in agriculture than we are today.

So, I just think you ought to keep up the good work and those of us from the big cities understand the rural problem and we will do what we can to mitigate the kind of damages that you are suffering.

The CHAIRMAN. The Chair recognizes Mr. Evans.

Mr. EVANS. Thank you, Mr. Chairman. I want to thank the witnesses because I am also on the House Agriculture Committee and appreciate your coming this distance. You have accomplished double duty testifying before the Budget Committee and at least one member of the House Agriculture Committee.

I participated in this long and lengthy process that was involved in coming up with the Food Security Act. I personally didn't support it, because I didn't think it went far enough to help our farmers with its target price freezes and subsequent budget cuts and price deficiencies. I didn't think it went far enough. But if you were satisfied, that is fine.

I can tell you Gramm-Rudman means cuts in every single point that you outlined. It will mean further cuts in commodity target prices and loan rates. It will mean cuts in the Extension Service, Farm Home Loan Administration, whatever we have done in that Farm Credit System bailout and in soil and water conservation programs. I don't think most Members of Congress realize that as of yet. Many people that supported that particular farm bill also supported Gramm-Rudman. Supposedly it is a multiyear farm bill. I think it has been made a multimonth farm bill at the very most, and it's causing you uncertainty.

We can't get answers out of the USDA. I realize, as John Block's Congressman, there is a transition going on in the USDA with him leaving and Mr. Lyng taking over, but we didn't get clear answers out of them. I can tell you as long as Gramm-Rudman is in effect it's going to mean cuts in everything that you have outlined. So, when you get back to Indiana I wish you would take that message back. And you should be thanking God that the lower court partially invalidated it.

I hope you are contacting your Senators, your Representatives, and telling them of what impact you think it is going to have on you. Obviously, as Congressman Russo indicated, it's going to cause a lot of uncertainty and lack of planning, a lack of knowledge. That is hurting you already because we don't even know what cuts are going to come in as of March 1 or as of October 1. So, I just wanted to make you aware of that.

Mrs. LEISING. I appreciate what you said. The thing about the Food and Security Act is that some of us as farmers felt that it wasn't as great as what we would have liked to have had, but on the other hand, if these budget cuts were truly going to take place, that we also had to give some and we thought we had given once, except Gramm-Rudman now again, it's like giving again.

Mr. EVANS. The chairman had a budget resolution which I supported and which meant cuts in farm programs, which were adopted on a multiyear basis within the Food and Security Act. So agriculture did take cuts in that specific program. I think it went a little too far, particularly as far as income maintenance is concerned. I support kind of a controversial approach embodying the Harkin-Alexander bill. Not to argue that again, but I see farmers having taken the cuts in that bill, Congress on one hand thinks they have done something about the farm program, farm problems, and a few weeks later they pass Gramm-Rudman, and it's going to have a devastating impact, no doubt about it.

Mrs. LEISING. I truly think it is, if the cuts continue. Mr. Arndt can speak to this better than I because he has been involved in trade through the corn growers. The whole key thing to this seems to me that if by lowering the loan rate to $1.92 and after the Gramm-Rudman impact on the Food and Security Act, if that truly reopens our export market, Congressman Russo, and really gets the export market moving although we are still fighting the strength of the dollar, then it would be worth it.

If we can get the export market back to where it used to be 4 years ago, then maybe we could see an increase in the commodity price for corn, soybeans, wheat, and hopefully that is the idea of the way I understand that the Food and Security Act was designed. Hopefully there would be some self-market stimulation and as a result of that we wouldn't have to be as dependent upon the Commodity Price Support Program. But certainly in this interim, this trade thing is not going to be developed overnight or in the next 6 months, and in between it's essential we are able to cash flow.

Mr. EVANS. I don't mean to debate you on that. It's a philosophical difference I have because I have talked to Canadians. I took a trip to Canada and they are going to pay their prices just whatever we lower ours. In addition, if we get those market prices going up as a result of export markets improving, what stops Brazil and Argentina from starting to expand in those areas.

I have philosophical differences. I do agree with you, though, and I hope you will be active about Gramm-Rudman because if anything, we have got to have some certainty and we have to have a plan. I am going to ask a question or make a comment. I hope you will look at the tax reform bill because I think there are some significances as far as lower and middle income farmers are concerned.

I think it changes the tax structure for larger corporations. I think it reduces the cost to many of our family farmers. It's probably not a perfect bill but with the cuts we have seen for many middle income people that includes a lot of our smaller family producers. In addition, with the minimum tax, we are going to be taxing certain corporate farms that haven't been taxed up to this point.

Mr. ARNDT. I would like to make a point on that corporate thing, if I may. I farm with two sons and their families. We farm all together and we formed a corporation back in about 1980 to handle the input of each of us and also to facilitate the separation in case of death of one of the members without penalizing the rest of the family. Now, under some of the new rules, simply because we are a corporation and not a family farm in the view of many people, we are being penalized especially under the $50,000 payment limitation.

I have some neighbors who were also in this case, three brothers who were involved in a family farming corporation and they actually split their corporation back up to a partnership simply because of these factors. So, I think if each of us were farming one-third of the acres—we have 1,800 acres all together in one crop. That would be 600 acres. We are renting a large portion of that, so you give half of that away right away.

If we were doing that individually, no one would raise any eyebrows at all. They would say you could use another 200 acres or something, which in truth each one could. But when you put it together, it sounds like an enormous amount, and somebody is ready to pounce on it right away when really there are efficiencies in sharing machinery and sharing work.

We would have to have more machinery and our cost would be greater if we had to have three separate operations. So, although trying to be fair and trying to single out corporations, and I agree there are large corporations who get an awful lot of money out of this, but at the same time the law has been a bit unfair with some of the lower income groups.

Mr. EVANS. We thank you for your testimony and thank you, Mr. Chairman, for your indulgence.

The CHAIRMAN. The gentleman from Illinois has no questions. Mr. Arndt and Mrs. Leising, we want to thank you for coming, testifying, and sharing with us what is happening in the Midwest to those in agriculture and farming.

At this time we are going to have the last two witnesses of the day, John Rita, who is the former mayor of Blue Island. He will testify on behalf of the transportation group. The Northwest Community Organization will close our hearing with their testimony. Mr. Rita, we welcome you and urge you to proceed. We thank you for coming. We also thank the Northwest Community Organization for their witness today as well as their testimony. Please proceed.

STATEMENT OF JOHN RITA, CHAIRMAN, WORK PROGRAM COMMITTEE, CHICAGO AREA TRANSPORTATION STUDY, AND FORMER MAYOR OF BLUE ISLAND, IL

Mr. RITA. Thank you, Congressman Gray. I will summarize my statement and you have the printed copy of it. I am testifying here today as chairman of the Work Program Committee of the Chicago Area Transportation Study and as a former mayor of Blue Island and the past president of the South Suburban Mayors and Managers.

I would like to take a few moments to describe a Federal transportation program which has been an outstanding success in northern Illinois, the Federal Aid Urban Program which I will refer to as the FAU Program. Mr. Chairman, this program was designed to solve pressing urban roadway problems facing large population centers which were not being addressed by existing Federal or State programs.

The FAU program called for projects to be selected by local officials within the urban areas. For the first time an entity other than the State had some of the Federal project programming prerogatives in urban areas. In northeastern Illinois, a very successful triparty relationship developed between municipalities, the State, and Federal Government. No better illustration of this exists than the fact that nearly half of all the FAU projects have a local match from more than one source. These include both the private and public sectors and within the public sector municipal, county, and State and township governments. We feel that this program is very successful and we would like to keep the program intact.

To summarize the statement, the Chicago Area Transportation Study represents 260 municipalities in a six-county area, about 7 million people. Thank you.

[The prepared statement of Mr. Rita follows:]

PREPARED STATEMENT OF JOHN RITA

Thank you Congressman Gray for the opportunity to testify today. I am testifying as Chairman of the Work Program Committee of the Chicago area transportation study and as the former mayor of Blue Island, IL. I'd like to take a few moments to describe a Federal transportation program which has been an outstanding success in northeastern Illinois: The Federal Aid Urban Program which I will refer to as the FAU Program. This program was designed to solve pressing urban roadway problems facing large population centers which were not being addressed by existing Federal or State programs. The FAU program called for projects to be selected by local officials within the urban areas. For the first time, an entity other than the State had some of the Federal project programming prerogatives in urban areas. In northeastern Illinois a very successful tri-party relationship developed between municipalities, the State, and the Federal Government. No better illustration of this exists than the fact that nearly half of all FAU projects have a local match from more than one source. These include both the private and the public sectors, and within the public sector, municipal, county, State and township governments.

Currently the $800 million available nationally from the FAU program provide about $13 million for the city of Chicago and $18 million for the rest of the municipalities in northeastern Illinois. The suggestion that the FAU program only funds low priority projects is without merit. Over 22 percent of the travel in the United States takes place on the FAU system, more than on the interstate system. In northeastern Illinois over half of the travel on Federal routes occurs on the FAU system.

We are acutely aware of the danger of continued Federal deficits and how they will dictate decisions in Federal spending over the next 4 years. In view of the budget reductions now being imposed by the Gramm-Rudman provisions, we realize certain funding limitations can be expected during the remainder of fiscal year 1986 as well as in the future. Since these decisions impact the future of urban highway and transit programs, they are of significant interest to all of us at the local level.

A review of the proposed budget revealed a provision for the elimination of the FAU program as we now know it. The budget instead calls for a "Ground Transportation Block Grant" combining transit and highway funding for urban areas. The concept has some merit and is not itself opposed by my fellow mayors. However, we cannot accept the double impact of transit/highway competition for the same dollar and a substantial decrease in Federal funding. We applaud the Federal Government's efforts to reduce these deficits and balance the Nation's budget. We feel it is important that a program that has proven to be as successful as the FAU program remain intact. The FAU program is successful because it achieves the intent of legislation that was both well conceived and much needed. The spinoff of the development of the tri-party relationship now constitutes the backbone of the transportation programming process in urban areas.

Thank you for the opportunity to present this testimony to the committee.

Mr. RUSSO [presiding]. Thank you very much, Mr. Mayor. I am sorry you had to wait until the end of the day but it's good to have you around to listen to all the problems the rest of us have to face in dealing with budgets. I certainly hope when we do our final budget we take into consideration some of the things that you have raised here today. We know there are going to be some cuts made; we will just try to make them as fair as possible.

Mr. RITA. Thank you. It would seem to me, Congressman, that if you could put across—I know you are doing that, you are fighting hard in this area along with Congressman Savage—that you can impress the Congress and the President that a slight decrease in the defense spending would seem to me that they would resolve all of these difficult domestic cuts that are being done, and I have been listening for 3 hours out in the audience. But somehow it seems to me you are talking to a brick wall or whatever, but just keep up the good work. That is just my feeling in this regard.

Mr. SAVAGE. Thank you very much.

Mr. RUSSO. Our final witness of the day is Northwest Community Organization. Would you come to the table there and identify yourself for the record.

STATEMENT OF DOROTHY MAEDA, PAST PRESIDENT, NORTHWEST COMMUNITY ORGANIZATION

Ms. MAEDA. My name is Dorothy Maeda, past president of the Northwest Community Organization and also representing several of the groups who had to leave. I am here today to speak to the congressional panel about the fallacy of Reagan's State of the Union Address. Mr. Reagan alludes to a budget that will streamline unsuccessful social programs and supposedly reinstate a stronger family bonding, while we know in fact what he is saying is that the Federal Government is abandoning individuals to their State and city governments.

With less Federal moneys to the local government structures, Reagan will have to leave the taxpayers with no recourse from either group. Mr. Reagan would have the American public believe that it's the needy that drain the budgets, that welfare, Social Security, jobs and training programs, small busineses subsidies and other such programs for the people who need it most are a basis for the ever-growing Federal deficit. The real truth of the matter is that these programs, when properly funded helped former President John F. Kennedy to reduce the amount of people living below the poverty level in 1959 from 32.4 million people to 22 million by 1963, and all the way through until 1979 these programs kept reducing the numbers effectively.

I am here today to say that further cuts to social programs would be a disaster to the human rights of those of us that are truly needy. The more you cut student loan programs the more you leave our youth into the future of unskilled, low-paying jobs. The more you cut food stamps the more people you will have crying out from hunger. The more you cut out of the Medicare programs the more seniors you will have dying because they could not remain in the hospital long enough to regain their strength and go home to look after themselves.

The more you tax the individual American without taxing the large corporations, the less money we will have to build our own economic self-dependency. The more you cut from social programs that house the homeless the more people you have to find shelter in abandoned buildings and park benches.

To effectively help Americans as a whole, we must stop expecting people to swallow a defense budget that protects basic human rights in other countries but expect us Americans to eat bullets instead of food, to live in the substandard housing that resemble fallout shelters or survive on a personal income that will wipe us out as a people before the first bomb is dropped.

Who is the Government for? The average American? The taxpayer or future warmongers in Washington? We urge this panel to extend their investigation of all social programs and advise the President on how to effectively add funding to these programs to work in the best interest of those who need them. I as a senior citizen am speaking on our behalf. He intends to cut the housing that we were once getting. He intends to cut our Medicare. For us to pay for doctors, we cannot even afford to pay the $395 to enter a hospital, and how in the world are we going to pay $30, $40, $50 to doctors for a doctor's visit?

I urge this panel to go back to hear the cry from the communities that we, the people out here, are the people that are hurting. We only wish we found out earlier that this was being heard in the city of Chicago. I would like to see that this panel reach out and bring in the people from the communities—you have got to excuse me, I have got no teeth and got no money to buy any; my mouth gets pretty dry. We would like to see a little bit more of these hearings within the real peoples' communities. Please. We are always the first in here and the last to be heard.

We demand that we want to be heard a little bit more where that hurting is happening out in the communities.

[The prepared statement of Ms. Maeda follows:]

Prepared Statement of Dorothy Maeda

I am here today to speak to the Congressional panel about the fallacy of Reagan's state of the Union address. Mr. Reagan eludes to a budget that will streamline unsuccessful social programs and supposedly reinstitute a stronger family bonding. What we know in fact he is saying is that the Federal Government is abandoning individuals to their State and city governments. With less Federal moneys to the local governmental structures, Reagan will have left the taxpayers with no recourse from either group.

Mr. Reagan would have the American public believe that it is we here at home that drain the budget. That welfare, Social Security, job training programs, small business subsidies, and other such programs that help those who need it most are the basis for the ever growing Federal deficit. The real truth of the matter is that these programs when properly funded helped former President John F. Kennedy to reduce the amount of people living below the poverty level in 1959 from 32.1 million people to 22.0 million by 1963 and all the way through until 1979 these programs kept reducing those numbers, effectively.

I am here today to say that further cuts to social programs would be disastrous to the human rights of those of us that are truly needy.

The more you cut student loan programs, the more you leave our youth into the future of unskilled low paying jobs. The more you cut food stamp spending, the more people you will leave crying out from hunger. The more you cut out of the Medicare program, the more seniors you will have dying because they could not remain in the hospital long enough to regain their strength and go home to look after themselves. The more you tax the individual American without taxing the large corporations, the less money we will have to build our own economic self-dependency. The more you cut from social programs that house the homeless, the more people you leave to find shelter in abandoned buildings and park benches.

To effectively help Americans as a whole, we must stop expecting people to swallow a defense budget that protects basic human rights in other countries but expects us as Americans to eat bullets instead of food, to live in substandard housing that resemble fallout shelters, or survive on a personal income that will wipe us out as a people before the first bomb is dropped.

Who is the Government for? The average American taxpayer or the few war mongers in Washington.

We urge this panel to extend their investigation of all social programs and advise the President on how to effectively add funding to these programs to work in the best interest of those who need them.

Mr. Russo. Thank you very much. We certainly appreciate your testimony. I thought it was excellent testimony.

I think the priorities in this country are misdirected by this administration. That is one of the reasons why we are taking the Budget Committee around the country. That is why we are in Chicago. That is why we are going to Boston. That is why we are going to Tallahassee, Dallas and San Francisco.

There are a lot of individuals who didn't show up today who would rather we not come out here and listen to people like you.

Ms. Maeda. We don't care about them.

Mr. Russo. I understand that, but we are doing the best we can dealing with the time constraints we have to work under. We are trying to meet the needs of a cross section of American people that will testify and how this budget really affects them at home.

We appreciate the fact that you waited around, and we were more than happy to receive your testimony. I thought it was very well thought out and very well presented in spite of the fact you don't have any teeth.

Ms. Maeda. You can go back to Reagan and tell him my grandchildren are growing up now, and we can't put a tank on the table and we can't put bullets in their plate, so we need more.

Mr. Russo. I understand that. Mr. Savage.

Mr. Savage. What was the name, again, ma'am?

Ms. Maeda. My name is Dorothy Maeda, m-a-e-d-a.

Mr. Savage. May I just say as we conclude here that I am very sympathetic to your testimony and my voting record inside to indicate that.

However, I do want to raise a problem with it. That is that one of the problems, as I see it from inside Congress is that while I certainly would wish that the bulk of the average American's feel as you do, but I think it is a hard fact that we who fight to help the needy, we must face a very harsh fact, and that is that the proposals against which most people here testified today are the proposals of a President who less than 1 year ago was reelected by the overwhelming majority of average Americans.

Ms. Maeda. We didn't elect him.

Mr. Savage. I want you to comment on this. I just want you to comment on it. It is a very serious problem, because I think it is reflected by many of our colleagues that are contrary to the needs that you so well expressed today.

I am just saying that the problem is not merely in Congress. It is in Congress, and unquestionably the responsibiity for dealing with those problems are in the main the responsibility of this administration and Congress, and this administration cannot do anything that Congress has not approved.

But I repeat that we have a problem that goes beyond the administration or the Congress, and that is that the average American showed clearly in 1984 that they wanted the President who proposed exactly what we are fighting against in the testimony you gave.

Ms. MAEDA. Mr. Savage, do you really think—I watched the election through. I watched him count votes from city after city. All of a sudden there was no more count. He won as a majority.

I did not see, really, what came from the State of Illinois. It was almost conceded to him without—I don't even remember a count that was taken in Illinois. I watched it all the way through.

I can tell you there was many people out there, especially within my area, who did not vote Reagan in. I am a true Democrat. I am a Democrat from the time through the Depression. I was a young girl. And now I am seeing my grandchildren going through almost the same depression that I went through in 1929.

If anyone around here thinks we are not going through a Depression of 1929 when I remember a President coming in and saying there will be two chickens in every pot and a car in every garage, and we did. We had garbage and soup lines as far as we could look.

We are going through the same exact thing that we went through in 1929. I realized it because I was a young lady at that time, and I can see us do this again. I do not want to see my grandkids go through what I had to go through back then or my parents.

We have to do something about it. And we will do something. He has only got 3 years, but he is going to make it a miserable 3 years, that man, while he is sitting there, and that is why we depend on you as our State representatives in Washington, our Congressmen in Washington, because we vote you in, hoping that you will be at our side when we need you.

I think you can do a great job. We are going to Washington, too, in May, and I will be there, you better believe it.

I wish I could have that man in front of me to talk to him, but he didn't even come when he came out for elections. He didn't even come to the west side of Chicago.

Like Cardiss Collins said earlier, he didn't want to meet that kind of constituency to tell him how in the heck he needs to go.

It makes me angry that people just don't come out to the poor. Maybe I am not so poor. I get that food through my husband. I get $225 a month to live on on Social Security. If I didn't have a husband, I would get $100 a month, because the days I worked, it was maybe a week coming out of my Social Security.

Mr. SAVAGE. Let me thank you for your patience and for the strength and voracity of your testimony. Thank you again.

Ms. MAEDA. Thank you, Mr. Savage, and thank you, Congressman.

Mr. RUSSO. We have one last witness, Jeremy Tachau.

STATEMENT OF JEREMY TACHAU

Mr. TACHAU. My name is Jeremy Tachau. I go to the University of Illinois. I am a freshman there, 18 years old.

I have been looking at the deficit issue and how it will affect those my age the last couple years. As a congressional intern last summer, I established, with three other interns, a national organization known as SEND, or Students To End National Deficits, to alert our peers to the threats the issue poses to our future.

I would first like to thank you for letting me speak today, and also your staff for allowing me to submit written testimony. I am speaking on behalf of our 32 chapters across the Nation on college campuses, all students my age and also our younger brothers and sisters.

The main point I intend to get across is that we have an interest in our economic future, that we want to be better represented in Washington.

I have had some experience working on the Hill, and I know how well special interests are dug in and how they have all their concerns well represented.

What I am trying to do is go around and get those my age more interested in speaking out and communicating their concerns, because all the decisions that are being made by our leaders today are shaping the world we will find ourselves in tomorrow. So, we, at SEND, are telling our peers that we have to be aware of what is going on.

We realize that there are no easy answers, that you are facing very difficult fiscal problems. We just hope that a more united and dedicated attempt will be made to work on the problem. We know that we aren't going to get any quick, easy solutions.

[The prepared statement of Mr. Tachau follows:]

PREPARED STATEMENT OF JEREMY TACHAU

My name is Jeremy Tachau. I'm 18 years old, a resident of Evanston, IL, and a freshman at the University of Illinois. Over the past few years, I've studied the deficit problem and the effect it will have on the future of those my age and younger generations.

As a Congressional intern last summer, I established (along with three other college students) a nationwide college-level organization known as SEND (Students to End National Deficits) to alert our peers to the problems these deficits pose to our future. I have spent much of my time in Washington, DC, speaking to student groups, urging them to become involved with key issues on our nation's agenda, as those who will inherit a world shaped by today's decisions.

Before continuing, I would like to thank Senator Simon's office and especially Congressman Russo and his staff for allowing me to give a brief testimony today and submit extended remarks for the Record.

I am speaking here today on behalf of the 32 chapters of SEND on college campuses, all students my age, and our younger brothers and sisters. The point I wish to stress is that we have a concern for our future which, we feel, is not being fully recognized. We would like to have the same economic opportunity, a standard of living similar to that enjoyed by Americans today.

But the situation does not look so promising for us. We have a President who is so good at filling a nation with optimism and pride. We have a leader who is an expert at consoling Americans after a crisis. But what do we, as students, have to console us, except a fiscally irresponsible government that refuses to account for its debts—debts that we will have to pay later? Every year they incur a $200 billion deficit means an extra $10,000 in lifetime taxes we will each have to pay—and that's just for interest on the debt.

What do we have to console us, but the knowledge that we will get 75 cents for every $1 we will pay, while the opposite is true today? How can we be encouraged by the possibility of a government that will be hard pressed to meet our basic needs in the future—a scenario reinforced by a growing net interest expenditures which have doubled from only 7 percent of the budget 10 years ago?

America's current leaders are passing on to us an annual debt burden at least five times greater than the debt their parents gave them. Their parents had to survive the Great Depression and fight World War II. Those were good reasons for borrowing. But what reasons do our parents have for running up these huge IOU's? What gives them the right to do this?

Our parents won't let us run up a bill on their credit cards, so why should we let today's leaders run up a $2 trillion bill on our credit card? Have we forgotten that our Government should represent the interests of children and young people just as much as the interests of those who can vote and pay taxes today?

We have rights too. But by spending $200 billion more than they collect in taxes, year after year, our Government is—in effect—picking our pockets. This intergenerational pocket-picking is not fair. But let's face it, high levels of spending and low levels of taxes are politically popular.

We recognize that hard choices lay ahead for those who represent us. We also realize that there are no easy, quick solutions to today's fiscal problems.

As students, we will be more reassured about our future if we see more compromise and more alternatives on the table in Washington. We feel that taxes and major spending programs must be a part of the debate. Anyone can figure out that a deficit equal to 22 percent of the budget can't be cut from nondefense discretionary, equal to 16 percent of the budget. Although the President's state of the Union address would fill most of our hearts with pride, his fiscal year 1987 budget does not give us any consolation.

The danger is that we have all grown too accustomed to the prosperity America enjoys today. We haven't reacted to the threat of excessive borrowing because of a false sense of security, a kind of innocence, a feeling that things will never change here. As students today, we have many plans, unlimited goals and expectations. Unfortunately, our dreams aren't insured by the F.D.I.C.

We may not be consoled by the present fiscal situation. Yet, we at SEND are aware of the difficult decisions that must be made, and intend to urge our peers to take part in the action to guarantee a strong economic future.

Mr. Russo. Jeremy, thank you for waiting around to give the testimony. Rest assured those of us on the Budget Committee and those of us in Congress understand the importance of your future.

I have a young son 17-years-old and another young son 8-years-old, and I certainly don't want him to have to go through life with this huge deficit to carry and try to figure out in future years how to deal with it.

I think it is important that young people get involved, and I am glad to see that you are doing something about it. It is one thing to complain. It is another thing to do. I want to compliment you for taking the time to be here and for your efforts in trying to arouse other young people in the country to realize whether it is a democratic deficit or republican deficit, large deficits really mortgage your future. Thank you very much for testifying.

Thank you very much. This concludes the hearing in Chicago. Thank everybody for being here, especially our court reporter who has done a magnificent job.

[Additional information submitted for the record follows:]

PREPARED STATEMENT OF FRANK ALBANESE, EXECUTIVE DIRECTOR, ALBANY PARK COMMUNITY CENTER

The Albany Park Community Center began operation in the Multi-Ethnic working poor community of Albany Park in 1975. The Center is a not-for-profit community based organization with a Board of Directors drawn from the neighborhood. Members of the Board include local business men and women, civic group members, community leaders and parents of the clients.

An analysis of 1980 census data confirms that Albany Park is a working poor community with a significant portion of its residents surviving at a basic subsistence level. 47 percent of households have incomes of less than $15,000 per year. 17 percent have incomes of less than $10,000 per year. 43 percent of residents over age 25 have never completed high school. 39 percent of residents aged 16 or over are either unemployed or not in the labor force. 48 percent of the children attending the public elementary schools receive free or reduced cost lunch. The Center cares deeply for the residents of Albany Park, especially for the many individuals and families that lack adequate resources necessary for their survival. The majority of families served are economically disadvantaged, educationally deprived, and often berefit of the resources necessary to meet basic human needs of food, shelter, clothing, and medical care.

Albany Park has been the site of dramatic community transition over the years. Historically, the neighborhood served as the first stop for many European immigrants. Beginning in the 1920's Russian Jews formed the largest ethnic group in the community. The community maintained a large Jewish population until the early 1960's. Over the next twenty-five years the community changed. Albany Park now has a very diversified ethnic mix, with 36 different languages and dialects being spoken in the public schools. 14% of community residents are Asian, 20% are Hispanic, 11% are from the Middle Eastern countries, 2% are black and 53% are white. In the past decade the groups that have grown most are the Asian and Indo-chinese, from 3% of the population in 1970, to 11% in 1980, to 14% at the current time. The Korean population has grown to well over 2000, by far the largest concentration of Koreans in the city. In addition, a large number of the white population are Appalachians that have moved into the central section of the community South of Lawrence Avenue.

The mission of the Albany Park Community Center is to increase the stability of families and to aid the healthy development of children. Our programs are designed to strengthen families and to protect children, while assisting their development. Our primary objectives are to promote a suitable environment in which to raise children, a stable neighborhood, the steady employment of adults - especially heads of households - and a healthy living environment for individuals and families.

We are a multi-service agency, providing a wide range of programs and functions. Currently we operate programs in day-care, after-school care, emergency aid, referral and advocacy, a delinquency prevention program that operates in close coordination with the three community public elementary schools, gang prevention program for teenagers, and several programs for adults such as a literacy project and English as a second language.

The families of Albany Park use the services provided by the Center to maintain their independence. For example, our day-care and Headstart programs make it possible for parents to work and thereby avoid dependence on AFDC, food stamps or public aid. At the same time, the children benefit from the education, nutrition and exposure to positive role models.

Remove this service and parents will have to stop working. Since most adults in Albany Park are employed in low skill, low paying jobs, they could not afford to pay for day-care on their own. They would have no choice but to quit their jobs and stay home to take care of their children and replace the lost income via food stamps and public aid.

Experts agree that federal cutbacks during the Reagan years have most severely effected the working poor. Requests for help from our emergency aid program have tripled in the last 2 years as working poor families find themselves locked out of programs due to tightened eligibility requirements. Our counseling programs which are located in all three of the neighborhood elementary schools have seen a dramatic increase in stress related problems: children unable to learn because they're worried about their family, child abuse, and alcoholism. Gang activity in Albany Park is on the rise. Children see the gangs as a viable choice to the poverty and stress of their home life. Our counseling programs have been extremely successful in reducing these stresses and limiting the appeal of gang membership.

Our programs make it possible for these families to keep going and to provide a future for their children. Remove these programs and the families will have no choice but to turn to public aid and other highly dependent types of services.

Our programs have been so successful that a variety of funding sources have provided resources to expand our initial Title XX Day Care program to include: two after-school programs and a new, full day Headstart program. The Center's Summer Day Camp has been the recipient of the Eleanor P. Ellis Award for program excellence. The Center is proud to have been the recipient of these awards and the endorsement of our service quality that they reflect.

Comments from parents, community residents, school teachers, and funding sources have consistently found Albany Park Community Center to be exemplary in its design, administration, and delivery of quality services which meet the needs of community residents. To quote one parent who had had her children in our day care program and who had received family counseling services, "Thank you for your constant support and extension of family for my children and me. You never stood in judgment, but were always there."

The Center receives funding from a wide range of sources including: Albany Bank & Trust Company, Bankers Life and Casualty Company, Blum-Kovler Foundation, Chicago Community Trust, Continental Bank Foundation, Deborah Parents of Young Adults, Fel-Pro Products, Field Foundation of Illinois, Forest Fund, Paul W. Guenzel, Irving Park-Kedzie Kiwanis, Jewel Foundation, Joyce Foundation, Kiwi-Koders, Leslie Fund, McCormick Foundation, MacArthur Foundation, Open Hearts for Retarded Children, Albert Pick, Jr., Fund, Schawk Corporate, Signode Fund, William Wood Skinner Foundation. In addition to these private sector contributions, Albany Park Community Center receives government funding from the following sources: City of Chicago-Department of Human Services-Title XX day-care funds, Headstart funds and a Community Development Block Grant; from the State of Illinois-Department of Mental Health and Developmental Disabilities and the State Library Association.

The community and city are solidly behind the Center and its programs. Local fund-raising via our annual campaign provides 40% ($400,000) of our operating budget. A figure that we are extremely proud of, but a figure that also demonstrates the extent to which local fund raising efforts are stretched. It simply is not possible to obtain more funds from the local economy at this time.

60% of our operating budget is based on funds made possible via the federal government. Any cut back in these funds means a direct cut back in service and assuredly many families being driven onto the welfare roles.

We know that our situation is not unique. Countless community based organizations in the City of Chicago, and undoubtedly throughout the country, will be forced to cut back services and drive families into poverty.

The funding cutbacks proposed by the Reagan administration for 1987 will have a direct and devastating effect on the 1500 families we serve annually at Albany Park Community Center. 45% of Albany Park children depend on the free lunch program as their prime source of one good balanced nutritious meal per day. The cutbacks would remove this food from the mouths of these hungry children.

To continue to spend money on a military build-up while our children go hungry and see working poor families fight for their very existence is clearly unfair. We feel that the budget cutbacks currently proposed will directly result in the break up of families due to increased stress, the increase of families that slip into dependence on welfare programs and the loss of hope for the future of countless children throughout the United States.

Prepared Statement of Dr. Gene Cartwright, Superintendent, Jean Christianson, Board Member, Community High School District 218

The spiraling Federal deficit is the Nations Number One problem and threatens the well being of all if it continues unchecked. However, the Gramm/Rudman bill is undesirable because it exempts too much of the Federal budget from automatic cuts and places the burden of deficit reduction on only 27 percent of the budget. In this 27 percent, education has been targeted. The mandates to address the needs of the disadvantaged, handicapped, and immigrants will remain for local school boards to handle. The committee is urged to maintain the Federal role in funding education. Education is the strength of society and must be given a high priority.

Oppose Repealing of the Deduction for State and Local Taxes. The repeal of deductability of State and Local Taxes will leave the local taxpayer, who supports over 55 percent of cost of education in our district, with less spendable money to support the local effort to fund education. Voters will feel overtaxed and will not support referenda and local tax increases where needed.

Tax Exempt Bonds. Tax exempt bonds have been a successful tool for local governments and schools to finance working cash, maintaining buildings to meet life safety codes (fire, asbestos, etc.), and financing buildings for public use. The abitrage rules are too restrictive. The definition of "non-essential functions" is too restrictive. The interest restrictions will discourage financial institutions from buying tax exempt bonds. These restrictions, We're afraid, will reduce the marketability of tax exempt bonds. You are urged to lessen or remove the restrictions on tax exempt bonds.

Oppose Equity and Choice Act of 1985 (TEACH). You are urged to oppose the Equity and Choice Act of 1985, or the TEACH Bill. Public schools have enrolled almost all of the disadvantaged students in the nations school system. District 218 in Oak Lawn, Illinois has a national recognized Chapter I program that remediates reading and math deficiencies of the economically disadvantaged. Chapter I funds supplement local funds to upgrade disadvantaged learner's skills. Too, Oak Lawn and surrounding communities, have high parochial school populations. Diversion of Chapter I funds as vouchers to pay tuition to private schools will reduce significantly the level of services now provided.

Oppose Attorney's Fees (S.415, HR 1523 and S1580. The awarding of attorney fees at the administrative level should be opposed. In most cases, educational questions can be answered satisfactorily between educators and parents. The awarding of fees will promote confrontation at this level and will reduce the educational funds which could more wisely be spent on the child's education program.

Tuition Tax Credits You are urged to oppose any plans for tuition tax credits. Tuition tax credits undermine the traditional system of a universal public education.

Tuition tax credits will give private schools a competitive advantage since they can refuse to offer services to the disadvantaged and handicapped and be more selective in who the admit.

Many students who need help will be closed out from Federal funding.

Tax credits will erode voter support for public education since it will take more students out of public education.

Community High School District 218 is a comprehensive high school district which features the following:

1. A nationally recognized Chapter I Program.
2. A highly acclaimed bilingual program.
3. An alternative school that focuses on dropout prevention.
4. A vocational education center that provides job training high school juniors and seniors and adults.
5. A well recognized program for the handicapped.
6. A fiscally responsible Administration and Board of Education.

It has been through this Federal, State, and Local partnership that these high quality programs have been developed.

We are willing to do our share, but, we do not want to be the focus of budget cuts as proposed by the Gramm/Rudman bill.

PREPARED STATEMENT OF DONALD L. LINDSEY, CHAIRMAN, ILLINOIS STATE LEGISLATIVE BOARD, BROTHERHOOD OF LOCOMOTIVE ENGINEERS

Mr. Chairman and members of the House Budget Committee, my name is Donald L. Lindsey, Chairman Illinois State Legislative Board, Brotherhood of Locomotive Engineers.

I would like to take this opportunity to thank you for extending to me an invitation to appear this morning to present my views concerning the President's proposed budget for fiscal year 1987.

Those of us who have spent a lifetime in the railroad industry are deeply concerned over the recently passed Gramm-Rudman law which would force across the board mandatory reductions upon essential inter-city rail passenger services as well as those of mass transit services in our larger cities. In particular, we are aware that the administration intends to eliminate the Amtrak subsidy.

Despite the pressing need to reduce the deficit, I believe that the elimination of funding for Amtrak in particular, and the termination of rail service that would necessarily result from such action, would be short-sighted and inappropriate at this time. The course of action should be delayed until such time as a solution can be found. By decimating the Amtrak portion of the Federal budget, bone and muscle would be cut from the budget rather than fat. The major point that I would like to stress here is that a substantial number of people would be seriously and adversely affected not only here in the Chicago area if Amtrak must close down, but in the northeast corridor as well as western and rural states. Currently, western states are dependent on three trains a week.

Despite the administration's criticism of Amtrak, it is extremely efficient and the best means of travel to all parts of the country and while air travel is limited to weather conditions, trains are not. Amtrak now covers 23,000 route miles and serves well over 500 cities in 43 states, serving more cities than all major airlines combined. Last year, for the third consecutive year, ridership increased, carrying over 20.7 million passengers with a work force of 25,000.

The administration counters that it is committed to economic growth and commerce, and yet, how much growth would occur in those 29 cities lacking air or bus service when Amtrak ceases to operate? The economy would suffer with the loss of 25,000 Amtrak jobs.

Additionally, the administration tells us it is committed to national security. In a time of war we would not have Amtrak to rely upon with its 76,000 seats which could be used to transport military personnel.

In Illinois alone, the impact of eliminating Amtrak would be severely felt. Chicago, the nation's crossroads for Amtrak service would be severly inconvenienced by the loss of 53 daily trains. Such action would terminate service to 36 states and would cost the nation 90 percent of its passenger train stops, 97 percent of Amtrak route miles, 62 percent of its labor force, 50 percent of its ridership and 60 percent of revenues. Part of Illinois' 47,000 railroad employees, the largest number of any state in the union, would also be affected. In addition, the city of Chicago and the state of Illinois would lose millions of dollars in tax revenues.

generated by Amtrak.

The cessation of service by Amtrak would create new problems, not only in Illinois but throughout the 44 states that Amtrak services. Riders would be forced to use other means of transportation, namely air and bus service with neither being easily accessible in many instances. Low income and elderly persons could no longer afford to travel.

The shutdown of Amtrak would force Railroad Retirement System to the breaking point which means that 25,000 employees would no longer be supporting the system.

With the Loss of Amtrak, labor protection agreements for laid-off employees would continue for up to six years at a cost of $2 billion.

Amtrak's rolling stock valued at $3 billion would have to be scrapped with the exception of the locomotives which could be sold to freight railroads for half their worth. Depots and stations would decay and students attending eight colleges along Amtrak's routes would be forced to find other means of transportation.

It is unconscionable to think of destroying an essential service. In Great Britain, 8 per cent of all intercity travelers use trains as a means of transportation yet the national rail system receives a $1 billion annual subsidy. In France, the government assistance received amounts to $3 billion with that country leading the world in hi-speed trains. Japan has a $2 billion subsidy per year. In these countries combined, rail passengers represent approximately 20 per cent of all travelers. In comparison, the proportion of train travelers in this country as a whole is less than 1 per cent in cities such as Philadelphia, New York and Washington.

The administration's views regarding its budget goals is uncomprehensible. To sacrifice important transportation programs for additional defense spending accompanied by waste in that department should not be tolerated by the Congress.

In closing Mr. Chairman, I urge you and the members of your Committee to reject the Administration's misguided notion that its citizens can do without rail passenger service. I strongly support the need for Amtrak regardless of the costs.

PREPARED STATEMENT OF SALVATORE G. ROTELLA, CHANCELLOR, CITY COLLEGES OF CHICAGO

Mr. Chairman and Members of the House Budget Committee, thank you for the opportunity to offer comments on the President's budget proposal for FY 1987.

The past several years have seen a resurgence of national interest in education brought about in part by highly publicized reports bemoaning the state of education, with the result that we now see task forces readying plans for all-out assaults on these problems. Indeed, President Reagan has made clear his intent to "emphasize strong national leadership and dedication to the pursuit of excellence at all levels of education for all children"; Congress busily prepares the reauthorization of the Higher Education Act to reflect the changing needs of the higher education community; and state officials pass education reform packages throughout the nation.

Clearly at this point we seem ready to move forward with plans that will result in more effective and productive systems of education. However, any celebrations as a result of educational reform must be considered premature, for Gramm-Rudman, the proposed FY 1986 rescissions and now the FY 1987 White House budget have all converged on the academic community with potentially disastrous results. But what do these generalizations mean in specific terms?

Take the typical student attending the City Colleges of Chicago: such a student is likely to be a minority, may come from a family with an annual income of under $15,000, may not have finished high school or even attained the GED qualification. But this student is aware of the destructiveness produced by the welfare cycle and wants to break it by taking classes that will allow him or her to prepare for a better job or for the pursuit of higher education.

Another typical CCC student may have lost his job recently because his plant closed. And because of skills that are now obsolete, he finds himself "displaced" in the job arena. Such students want--and need--to avail themselves of education to upgrade their job skills in order to get back to work in contemporary growth industries.

We are speaking here of the truly needy: but while one paragraph in the FY 1987 U. S. Budget stresses the importance of "assisting economically disadvantaged or dislocated workers and students who are educationally disadvantaged, low-income or handicapped," the concluding statement in that document makes clear the stark reality of an appropriation request for post-secondary students which is $1.4 billion below the 1986 level. And this comes on top of the Gramm-Rudman reduction and the proposed FY 1986 rescissions.

What do these draconian cuts mean to CCC students? More stringent repayment obligations may preclude renewal of Guaranteed Student Loans by the majority of CCC students. In addition, because the Department of Education proposes to consolidate the Supplemental Educational Opportunity Grant (SEOG) and the College Work-Study Program (CWS) and reduce expenditures from the FY 1986 level of $1.5 billion to $400 million in FY 1987, many students may no longer be able to use these sources to supplement their aid package, while others may not be able to participate at all in the work-study program.

In addition, President Reagan's "reform" proposal to restrict financial aid eligibility to high school graduates (or their equivalent) would remove large amounts of students from City Colleges of Chicago rolls since a number of the Colleges' adult students do not have a high school diploma or GED certificate. Furthermore, let us remember that the City of Chicago is experiencing a high school drop-out rate of about 50 percent. The President's proposal thus undermines financial aid for students and frustrates CCC's commitment to access to higher education.

The City Colleges of Chicago takes great pride in its ability to meet the many challenges that face an urban community college of the 1980s. Programs responsive to the changing needs of Chicago's residents, particularly to the needs of a rising urban underclass, are currently either in place or are about to be instituted. Innovative approaches to ameliorate the effects of the deindustrialization of America are also underway. In particular, the work of CCC's Business Institute is a direct link with Chicago's business community. Programs that range from customized training and re-training for workers in major Chicago industries to small business development centers help create and sustain the economic health of the metropolitan area. Again, however, the FY 1987 budget proposals impede the progress of economic recovery by restricting funds.

Cutbacks to JTPA, dislocated workers programs and to funds that are channeled to small business development centers all but eliminate the undertakings of the Business Institute-private sector partnerships and severely limit the role they play in Chicago's plan for economic development through job creation and industrial expansion and retention.

Similarly, the proposed reduction of funds for vocational education serves only to exacerbate the economic ills caused by a workforce unprepared to deal with the changing nature of jobs in Chicago's business sector. More dramatic is the fact that this cut occurs on top of a 4.3 percent Gramm-Rudman reduction and a proposed FY 1986 rescission of over $200 million.

Several other innovative programs will suffer from the sharp blows of the budget axe. International and cooperative education are totally eliminated in the FY 1987 budget proposal. Thus, City Colleges of Chicago's venture in partnership with the private sector to develop an international business curriculum serving global needs of busines would end. And opportunities for handicapped individuals to develop higher level academic and job-related skills through CCC's Center for Disabled Student Services will be significantly curtailed, if the President's budget is approved by Congress.

One area noted in the budget as a major objective in educational development is the drive to eliminate illiteracy in this nation. Here, too, CCC hopes to make a major contribution in helping rid the city of this plague through its Literacy Project, a newly funded program with two objectives: to recruit citizens without the basic skills of literacy, and also to recruit and train volunteer tutors to work with them. In addition, CCC has developed a unique arrangement with the Chicago Public Library system to create and to staff "drop-in" centers for individuals wanting to develop literacy. Any special set-asides or targeting of funds for community college literacy programs would certainly be useful in reaching out to the more than 600,000 Chicago adults who, it is estimated, read below a fifth grade level.

Many educators and concerned citizens are of the opinion that politicians pay mere lip service to the public demand for access to higher education as well as educational reform. Though the White House proclaims education to be a national priority, the federal government is gradually shifting the burden of financing education programs to the state and local governments. A review of CCC's share of federal funds shows a decline in support from 16.4% in 1985 to 14.6% in 1986.

This approach does not bode well for the future of higher education. Illinois, for example, is currently finding it difficult to pay for a long-overdue education reform package. Chicago is also fiscally strapped and looking without success for the "best" way to increase revenues.

Added to all of these factors is the concern that the economic assumptions that have been used from which to estimate the FY 1987 budget have been too optimistic. Private economists suggest that deficits are likely to be higher than projected by the Reagan budget: the implication is that the amount of fiscal restraint may be even greater than proposed by the administration in order to meet Gramm-Rudman targets. Thus, if defense spending and taxes remain untouchable, domestic programs--especially education--stand to be slashed even further.

Education programs are among the hardest hit by the FY 1987 Budget and the Gramm-Rudman trigger. For community college students, particularly in large urban areas, this means closing the door to educational and professional advancement. Slowly, these potential, as well as current, students will slip into the depths of the rising tide of the underclass. The workforce will remain inadequately prepared to handle today's jobs, let alone tomorrow's. Partnerships between the community college and the private sector will go unattended. More businesses will leave the city, adding to the already outrageous unemployment figures of Chicago.

Our nation will remain at risk unless the federal government recognizes its responsibility to provide the opportunity for an education to all those who can benefit from it.

Thank you.

PREPARED STATEMENT OF ARNOLD R. WEBER, PRESIDENT, NORTHWESTERN UNIVERSITY

I appreciate the opportunity to present the House Budget Committee with a review of the impact that the Administration Budget for FY1987 could have upon Northwestern University. Because this budget is like no other in its focus upon the requirements of the Gramm-Rudman-Hollings law, I would like to demonstrate the full effect of that law by showing, against the base year of FY1985, the cumulative two-year cuts in federal support to the University because of the Gramm-Rudman sequestration in FY1986 and the Administration Budget in FY1987. If the sequestration and the Administration Budget were to be implemented, the major identified losses to Northwestern during that two-year period would be approximately $10 million -- $4.4 million in awards and overhead for research and training (Table 1), plus approximately $5.6 million in awards and overhead for student assistance (Table 2). Moreover, this estimate includes no allowance for the proposed elimination of categorical support functions, such as Research Libraries, International Studies, Graduate Fellowships, and Academic Facilities, or the Biomedical Research Support Grants, for which programs it is not yet possible to calculate the exact additional losses.

To a research university like Northwestern, the proposed increases in FY1987 of basic research funds at the National Science Foundation (NSF) and the Department of Energy (DOE) are heartening. However, even for these two agencies, the projected two-year growth in awards at Northwestern scarcely keeps pace with inflation. A two-year decline is estimated for Northwestern awards from all other agencies. Even the Department of Defense (DOD) FY1987 increases, which are the largest for any agency, would not have a significant positive impact upon Northwestern's

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research funding because the growth in the DOD budget for academic basic research is only about 3 percent. In addition, the two-year reduction in Northwestern awards represents an important loss of grants for graduate training, which is highly integrated with the research process. Finally, it is a matter of grave concern that, in the Federal Register for February 12, 1986, the Office of Management and Budget (OMB) issued a proposed A-21 revision, which would cap the indirect cost recovery for administrative expenditures at 26 percent in FY1986 and 20 percent in FY1987. The projected FY1987 loss at Northwestern would equal approximately $1 million. However, more than dollars are at stake. Indirect cost recovery, which is already substantially less than 100 percent, represents real expenditures incurred by Northwestern in order to maintain its capacity for the performance of research. Moreover, the current A-21 cost principles were agreed upon as a result of prolonged negotiation between the federal government and the university community. The brief comment period for the revision and the refusal of OMB to discuss other alternatives with the university community as urged by Congress last year constitute a breach in the spirit, if not the law, of the government-university research partnership.

The scale of the projected two-year cuts in federal student assistance at Northwestern is demonstrated by the fact that the loss would equal more than three-fourths of the student aid total for FY1985. The Administration Budget for FY1987 claims to protect the low-income students. However, because that budget does not request sufficient funds to make up a $370 million shortfall in Pell Grant appropriations, the statutory reduction formula is expected to decrease awards for even low income students. The proposed cuts in Supplemental Equal Opportunity Grant (SEOG) and Campus Work Study (CWS) funds would be especially harmful at Northwestern because they are designed to help lower-income students gain access to higher-priced institutions. The proposed restructuring of National Direct Student Loan (NDSL) Program, from a low-interest loan targeted for the neediest students to a high-interest supplemental loan like Auxiliary Loans to Assist Students (ALAS), would have a similar effect. As a result, Northwestern could not offer low-cost federal loans either for low-income and minority students seeking private higher education or for students bearing an unusually large debt burden. In the same way, the proposed restructuring of the Guaranteed Student Loan (GSL) Program along the lines of ALAS would not only reduce the number of lenders participating in the program but also reduce the number of low-income and minority borrowers and increase student debt levels and default. In addition, the proposed changes in the need analysis system would increase family contributions and decrease aid awards for students from families with moderate incomes ranging from $15,000 to $32,999.

During the 1980s, higher education has already taken its fair share of the cuts. Between 1981 and 1986, federal student aid declined 12 percent. During the same period, basic research funds did grow faster than the rate of inflation, but only for the first time in a decade. However, over that period, federal funds for academic research infrastructure -- graduate support, scientific equipment, and research facilities -- continued a second decade of decline. Therefore, given the importance of research and education to U.S. economic competitiveness and national defense, it is not unreasonable to urge that Congress at least maintain the budget functions most directly related to higher education (250,500,550) at levels approximating the FY1986 appropriations prior to the Gramm-Rudman sequestration.

TABLE 1
IMPACT OF GRAMM-RUDMAN & ADMINISTRATION BUDGET ON FEDERAL RESEARCH & TRAINING SUPPORT IN FY 1986 & 1987 FOR NORTHWESTERN UNIVERSITY ¹

	ACTUAL AWARDS FY 1985	CHANGES IN AWARDS FY 1985 - FY 1986 * (Gramm-Rudman)		CHANGES IN AWARDS FY 1985 - FY 1987 * (Administration Budget)	
FEDERAL AGENCY	Dollars	Dollars	Percent	Dollars	Percent
Agency for International Development	$2,658,987	($159,539)	-6.0%	($846,914)	-31.9%
Department of Commerce	$49,703	($2,982)	-6.0%	($5,225)	-10.5%
Department of Defense	$4,315,314	($258,919)	-6.0%	($165,622)	-3.8%
Department of Education	$2,581,088	($154,865)	-6.0%	($438,733)	-17.0%
Department of Energy	$2,125,411	($127,525)	-6.0%	$52,285	2.5%
Department of Health & Human Services	$27,553,174	($1,653,190)	-6.0%	($2,119,390)	-7.7%
Department of the Interior	$46,629	($2,798)	-6.0%	($10,074)	-21.6%
Department of Transportation	$638,513	($38,311)	-6.0%	($80,925)	-12.7%
Environmental Protection Agency	$59,227	($3,554)	-6.0%	($492)	-0.8%
Federal Home Loan Bank Board	$22,910	($1,375)	-6.0%	($2,904)	-12.7%
National Aeronautics and Space Administration	$508,982	($30,539)	-6.0%	($56,853)	-11.2%
National Endowment for the Arts	$57,024	($3,421)	-6.0%	($5,941)	-10.4%
National Endowment for the Humanities	$86,314	($5,179)	-6.0%	($8,992)	-10.4%
Nuclear Regulatory Commission	$50,000	($3,000)	-6.0%	($6,337)	-12.7%
National Science Foundation	$11,022,618	($661,357)	-6.0%	$260,795	2.4%
Veterans Administration	$461,677	($27,701)	-6.0%	($27,701)	-6.0%
Total Federal Awards	$52,237,571	($3,134,254)	-6.0%	($3,463,022)	-6.6%
Loss of Indirect Cost Recovery From Proposed A-21 Revision **				($907,000)	
Total Change in Awards and Overhead		($3,134,254)		($4,370,022)	

TABLE 1 FOOTNOTES

† For the purposes of this table, Northwestern's fiscal year (ending August 31) is assumed to be identical with the federal fiscal year (ending September 30).

* Because the agencies will have already expended a portion of their FY 1986 funds in the five months prior to the implementation of G-R-H and because Northwestern has a history of receiving a disproportionate amount of its research support in the later months of the fiscal year, the impact is estimated at 6.0 rather than 4.3 percent.

■ The changes in awards vary by federal agency according to information in the FY 1987 Administration Budget for those program areas from which Northwestern receives most of its research funding.

†† The reduction in total federal awards for both FY 1986 and FY 1987 includes a proportionate loss of indirect cost recovery. An additional loss of $907,000 in indirect cost recovery would occur from the implementation of the "Proposed Revision of Circular A-21" in the Federal Register for February 12, 1986. Subject to interpretation and negotion of this regulation, the proposed caps on recovery for administrative costs of 26 percent in FY 1986 and 20 percent in FY 1987 are projected to cause a loss of 0.0 and 8.8 percent respectively.

TABLE 2

IMPACT OF GRAMM-RUDMAN & ADMINISTRATION BUDGET ON FEDERAL STUDENT ASSISTANCE IN FY 1986 & 1987 FOR NORTHWESTERN UNIVERSITY †

	ACTUAL AWARDS FY 1985	CHANGES IN AWARDS FY 1985 - FY 1986 (Gramm-Rudman)		CHANGES IN AWARDS FY 1985 - FY 1987 (Administration Budget)	
FEDERAL PROGRAM	Dollars	Dollars	Percent	Dollars	Percent
Pell	$1,150,000	($50,000)	-4.3%	($185,150)	-16.1%
NDSL (FCC)	$323,193	($13,897)	-4.3%	$0	0.0%
SEOG *	$1,916,007	($82,400)	-4.3%	($1,916,007)	-100.0%
CWS *	$3,059,797	($131,500)	-4.3%	($3,059,797)	-100.0%
SEOG/CWS Block Grant *	$0	$0	0.0%	$1,860,970	+100.0%
Needs Analysis Changes in FY 1987 Affecting Title IV Programs **	--	--		($1,672,000)	
GPOP	$72,800	($3,130)	-4.3%	($72,800)	-100.0%
CLEO	$800	($35)	-4.3%	($800)	-100.0%
EFN	$70,500	($3,032)	-4.3%	($47,000)	-66.6%
Total Federal Awards	$6,593,097	($283,994)	-4.3%	($5,092,584)	-77.2%
Loss of Administrative Allowance From Proposed Elimination ††	--	--		($364,773)	
Total Change in Awards and Overhead		($283,994)		($5,457,357)	

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TABLE 2 FOOTNOTES

[†] Since all student assistance programs except for GSL are forward funded, federal FY 1985 corresponds to academic year 1985-86, etc.

[*] Since legislation for the SEOG/CWS Block Grant proposed in FY 1987 has not yet been introduced, estimates must be based upon current SEOG and CWS Programs.

[■] Needs analysis changes proposed in FY 1987 would cause reductions in awards from all Title IV programs by increasing family contributions and reducing eligibility.

[††] Elimination of all administrative allowances for overhead on all financial assistance programs is proposed in FY 1987.

PREPARED STATEMENT OF NANCY E. TAYLOR

Thank you for this opportunity to participate in the House Budget Committee Hearings. I respectfully submit the following testimony:

The areas impacted by budget cuts and of concern to RESULTS, the group I represent, are many. However, I have chosen to focus my testimony on the cuts proposed in four accounts of the Foreign Aid budget. They are AID Health, UNICEF, Child Survival Fund and IFAD.

I fully recognize the severity of the growing national debt and the need to take action to reduce it by cutting deficit spending. It is also true that when given the task of reducing spending it is wise and prudent to carefully choose a set of criteria for determining what can be cut or eliminated and what is essential and worthy of continued support. I think it is safe to say that programs of proven benefit to humankind that are both low in cost and highly effective should be favorably considered for continued funding. Such are the four accounts I mentioned before.

In the 1985 *State of the World's Children Report* issued by UNICEF, it was stated that approximately 5 million children die each year of six vaccine preventable diseases. To deal with this emergency, UNICEF has launched immunization campaigns in over 40 countries as part of their commitment to immunize all the world's children by 1990. This "universal immunization" drive is part of what is known as the Child Survival Revolution which promotes the use of four simple, cost-effective measures designed to cut child deaths in half within a decade. Current figures place child deaths at 15 million annually.

Our Government's response to this ambitious campaign was to make funds available for use by UNICEF and other international and private voluntary agencies employing the primary health care methods developed by UNICEF known as GOBI. GOBI is the acronym that represents the program of *G*rowth chart monitoring, *O*ral rehydration therapy, the promotion of *B*reast feeding and *I*mmunization. In addition to the UNICEF budget, funds for these measures are channelled through the AID Health account and the Child Survival Fund.

What has been the result of these expenditures and all this activity? The 1986 *State of the World's Children Report* states that according to the World Health Organization, the statistics reflect a saving of over 1 million-child lives in a 12 month period. They attribute the saving of these lives to more widespread immunization and use of oral rehydration therapy. This represents a success far beyond any expectations projected at the outset of this campaign and it is only a meager beginning.

On the heels of these wonderful results, came the President's budget request for fiscal year 1987 and the sequester of fiscal year 1986 funds as mandated by Gramm-Rudman to achieve an $11 billion budget cut by March 1. The President has requested considerably less money for fiscal year 1987 in three of these accounts and has made no request for funds for IFAD. Also, the $11 billion in cuts scheduled by March substantially reduces the funds already appropriated in the 1986 Continuing Resolution.

It might be possible to reconcile ourselves to these funding reductions were it not for the fact that the very survival of millions of children hangs in the balance. Add to these already high stakes, the opportunity to favorably impact a problem, thought by many to be the most serious one in the Third World, that of rampant population growth. There is now a great deal of evidence that indicates that when child death rates are reduced, a corresponding decrease in the population growth rate takes place. Given that scenario, primary health care offers an opportunity for a double win.

What of the quality of the life of these children and the promise of their future once it has been ransomed back? The poverty they are born into seems to grind away at any hope for improvement of their living conditions. The only possibilities that appear available to them are endless deprivation in teeming slums or dirt poor farms without adequate means to rise above their circumstances.

The final account mentioned earlier, IFAD (International Fund for Agricultural Development) deals with the plight of the small farmer and the landless poor. IFAD has been organized to loan money to "grassroots" projects that help to enable the poorest of the poor to achieve self-sufficiency. IFAD has operated since 1977 in the areas of greatest need and has accomplished what would have been termed as "miracles" just 10 years ago. An example of their effectiveness is described in this statement it costs $400 to ship 1 ton of food to Africa and yet for $200, IFAD estimates that they can enable a farmer to produce one ton of food each year for a lifetime. That achievement qualifies IFAD as a fiscally sound investment program yielding unbelievably high returns.

The President has often stressed the importance of national security and he has made a firm commitment to increase funds for defense programs that he believes will insure that security. I question how secure we can ever be when 40,000 people, most of them children, die each day due to conditions for which there are ample solutions. Our great country has led the way in innovation and bold programs to foster development and growth of human potential. We have made the difficult easy and the impossible achievable. We are up to the challenge of ending death due to preventable causes. We are capable of funding projects that will enable people to save the lives of their own children and to channel their energies into work that will support a decent quality of life. The only question that remains is are we willing? Can we muster the commitment, once more, to achieve the achievable and work as partners with the poorest of our planet to "green" a sometimes hostile world and make it safe and nurturing for all humankind? In the great tradition of our pioneer spirit, I urge our government to choose spending policies that support the task that is worthy of our energy and resources.

Again, I am most grateful for this chance to share my views on the budgetary policies of our Government. I am confident that given the opportunity to evaluate the options available, Congress will strike the best compromise and achieve fiscal responsibility without handicapping important and effective programs.

PREPARED STATEMENT OF VERNA CLAYTON, PRESIDENT, VILLAGE OF BUFFALO GROVE

This testimony is presented on behalf of the mayors representing the 265 communities from northeastern Illinois. It will address transportation in general, and the Federal aid urban program or the FAU program as it is often referred.

Northeastern Illinois has a long history of being dependent on transportation. We have been a hub for rail transportation for over a century and aviation transportation for the past 35 years. This dependence has made us acutely aware of transportation's role in our everyday lives. As a society, we have become extremely dependent on this national public system to earn our livelihood and enjoy the benefits of this livelihood. Since the Federal Government's involvement has always played an important role in support of this vital public program, we do not feel that now is the time to greatly diminish or eliminate their role.

I'd like to take a few moments to describe a Federal transportation program which has been an outstanding success in northeastern Illinois, the FAU program. Perhaps the strongest point in favor of retaining the FAU program is its ability to accomplish its original concept. The program was designed to solve pressing urban roadway problems facing large population centers which were not being addressed by existing Federal or State programs. The architects of the program were aware that the States, as recipients of all Federal highway dollars, had a history of programing this money to cover statewide commitment. This new program was an attempt to make sure that urban areas got a reasonable share of the Federal highway dollar. Urban areas did and still do supply more transportation tax dollars for both the State and Federal transportation budgets than they receive, and this program was designed to insure some equity in the distribution of the money.

The distribution of the money, however, was not the only problem considered by Congress in enacting this program: The other was the selection of projects. This FAU program called for projects to be selected by local officials within the urban areas. This change had a profound effect on urban transportation programming. For the first time, an entity other than the State had some of the Federal project programing prerogatives in urban areas. In northeastern Illinois a very successful triparty relationship developed between municipalities, the State, and the Federal Government. It came about because the municipalities now were in a position to program projects for the FAU program, but it went beyond the FAU program. It spread to other programs because the communities now carried some transportation dollar "clout" to enforce the paper requirements for "local input." All three parties had to work together. No better illustration of this exists than the fact that nearly h[illegible] all FAU projects have a local match from more than one source. These in[illegible] both the private and the public sectors, and within the public sector, munici[illegible]unty, State and township governments.

Although the FAU program started slowly, in the past decade it has reached its full potential. Currently the $800 million available nationally from the FAU program provide about $13 million for the city of Chicago and $18 million for the rest of the municipalities in northeastern Illinois. In each of the last 5 years all of the available Federal funds for FAU projects have been obligated months before the close of the fiscal year. Nearly $400 million in additional projects have been programed to draw on this source as additional authorizations occur.

If the success of the program is related to available dollars, transportation clout and the implementation of projects, then it is also related to the actual projects that have been funded. They have ranged from street widening and resurfacing to street lights and traffic signals, and include a variety of transmit projects. Although the number and cost of the transit projects has been small, reflective of the priority assigned by local elected officials, those that were programed were important. The commuter parking program and the articulated buses that were funded with FAU funds were ones that neither the State nor RTA was interested in at the time; since it had a high local priority it was able to be funded. Many of the projects in the FAU program fall into this category, high local priority but no funding other than FAU.

Further, the suggestion that the FAU program only funds low priority projects is without merit. Over 22 percent of the travel in the United States takes place on the FAU system, more than on the interstate system. In northeastern Illinois over half of the travel on Federal routes occurs on the FAU system.

And finally, as elected officials, we are acutely aware of the danger of continued Federal deficits and how they will dictate decisions in Federal spending over the next 4 years. In view of the budget reductions now being imposed by the Gramm-Rudman provisions, we realize certain funding limitations can be expected during the remainder of fiscal year 1986 as well as in the future. Since these decisions impact the future of urban highway and transit programs, they are of significant interest to all of us at the local level.

A review of the proposed budget revealed a provision for the elimination of the FAU program as we now know it. The budget instead calls for a "ground transportation block grant" combining transit and highway funding for urban areas. The concept has some merit and is not itself opposed by my fellow mayors. However, we cannot accept the problem of transit and highways competing for the same dollar in the funding levels for these programs will experience a substantial decrease in their authorizations. We applaud the Federal Government's efforts to reduce these deficits and balance the Nation's budget. At the same time, however, we feel it is important that a program that has proven to be as successful as the FAU program remain intact and continue to serve the needs of the entire country as it has since its development in 1971.

Thank you for the opportunity to submit this testimony to the committee.

PREPARED STATEMENT OF CHICAGO ASSOCIATION OF NEIGHBORHOOD DEVELOPMENT ORGANIZATIONS (CANDO)

AFFECTS OF FEDERAL CUTBACKS ON URBAN ECONOMIC DEVELOPMENT IN CHICAGO

The Chicago Association of Neighborhood Development Organizations (CANDO) is a membership coalition of neighborhood-based business and community groups, nonprofit development corporations and local chambers of commerce which are dedicated to neighborhood revitalization. Since its incorporation in 1979, CANDO has been and continues to be an advocate for the resources of the private and public sectors to be directed equitably to Chicago's neighborhoods. In addition, CANDO strives to empower and build the capacity of its membership constituency to implement neighborhood development.

Since CANDO began, the number of groups who are active in neighborhood economic development activities in Chicago has grown from 10 to over 80. These groups vary in sophistication, but all of them take advantage of the development tools available to them through federal programs. Without Community Development Block Grant (CDBG) funds, many of these groups could not afford to hire staff to implement economic development programs. CDBG funds make programs such as Facade Rebate, Streetscape and repair of vaulted sidewalks possible. CDBG also is the source of city loan programs, critical to neighborhood businesses. The Urban Development Action Grant (UDAG) is an essential tool in industrial and commercial expansion. The Small Business Administration (SBA) has been a powerful vehicle to enable local banks to do deals with small business in the neighborhoods. The SBA funded Small Business Development Center program, recently extended in Illinois to include CANDO and 14 of our member organizations, is providing invaluable service to Chicago's small business community. The continuation of this program is essential if specific needs of individual businesses are to be addressed.

The budget cuts which are being proposed by the Administration will put an end to many of the plans for business expansion in our communities. These expansion efforts are critical if jobs are going to be retained and created in Chicago. These tools provide incentives and reduce the cost of doing business in Chicago thus, enabling Chicago to remain competitive with the suburban municipalities and the sun belt states.

Specifically, we would ask that the Urban Development Action Grant (UDAG) program be retained, that Community Development Block Grant (CDBG) funds remain stable and that the Small Business Administration (SBA) stay intact. Most especially, we would ask that deferral notices in domestic programs from the OMB be overridden. Congress needs to react immediately and forcefully to the arbitrary elimination of these critical development tools. Our cities should not have to bear the burden of these cuts. Local capacity to use these tools has been built; let us continue to be able to use them. President Reagan claims that he doesn't want to hurt the family economy; but without jobs, urban families are going to be crippled.

Let us give you some examples of the kind of economic development activities going on in the neighborhoods of Chicago. In the last year the Greater Southwest Development Corporation has utilized the SBA 7a loan guarantee for six small businesses on their commercial strip. This amounts to $655,000 in investment and the retention and creation of 33 jobs. One of these deals involves a young couple who want to buy out a Dairy Queen and are not able to receive a loan because they don't have the equity. An SBA 7a guarantee would enable the local bank to make that loan.

Guersney Dell, in the Back of the Yards community manufactures candy-coated pieces of ice cream and was considering moving to New Mexico before talking to the Back of the Yards Neighborhood Council. Utilizing the benefits of locating in a state-designated Enterprise Zone, a $5 million industrial revenue bond, and a $1.5 million UDAG, Guersney Dell is building an $8 million, 75,000 square feet plant. Their $13 million in annual sales and their 120 jobs are staying in Chicago and expecting to double over the next few years. Again, in the Back of the Yards, Mikes Taters utilized a City of Chicago Business Development Loan (CDBG funds) to expand and has retained 20 and created 5 new jobs.

The South Austin/Madison Corporation (SAMCOR) credits its existence on CDBG funds. When SAMCOR was established, 90 percent of its budget came from CDBG funding. It now, only needs CDBG funding for 40 percent of its budget. Located in the heart of Chicago's depressed west side, SAMCOR has been able to broker $3.5 million in loans for the small businesses in that area. Plans for a Commercial District Project to revitalize the corner of Cicero and Madison will not go forward without a UDAG. SAMCOR is a critical anchor on the west side and needs to expand its work, not be cut back.

The Greater North Pulaski Development Corporation uses federal programs to attract businesses to locate in vacant industrial properties. They did a SBA 503 loan for $73,000, combined with another $77,000 in federal funds through the city for Solar Spring, a minority firm, to locate in a vacant factory and deliver 60 jobs for the community. This group also did a $1.2 million project, utilizing an SBA 503 loan for Gus' Meats to locate in a vacant property and exceeded its original goals for job creation. This deal created 35 new jobs. Using all the federal development tools available to them Greater North Pulaski Development Corporation has $4 million deals in process, involving 130 jobs.

The South Chicago Development Commission, serves the southeast area of Chicago, once the center of the City's steel industry. They use federal programs to retain businesses in Chicago. Metalkrafters is a machine shop which services the equipment of the large steel mills. In 1984, the company was turning away work and needed to move to a larger shop or to build an addition to an existing facility in Indiana. When a well equipped facility in Chicago was put on the market, the firm decided to acquire it. The purchase price was $2,600,00 of which the seller took back a mortgage of $1.7 million. Because the owner was only able to put up $130,000 in equity, they faced a financing gap of $770,000. In this case an SBA guaranteed loan of $550,000 was the most appropriate financing vehicle. In addition, the Development Commission also secured a loan of $220,000 from the Local Initiative Support Corporation. This project illustrates the potential alliance between three sectors, private, public and not-for-profit. All of these components were critical to the company's ability to establish itself and put 75 people to work in the shop. When Metalkrafters reaches full production, the company expects to have 150 employees.

Attracting commercial businesses to our neighborhood shopping strips is another critical arena of economic development CANDO members are engaged in. The Lawrence Avenue Development Corporation (LADCOR) catalyzed $7 million in private investments by doing a $450,000 Streetscape project. LADCOR has used the CDBG funded facade rebate program extensively.

Chicago is a city of neighborhoods. Neighborhood based economic development is happening in Chicago. The federal programs that are being effectively utilized are critical tools for development. Economic development in Chicago needs to expand, not be curtailed.

PREPARED STATEMENT OF CABALLEROS DE SAN JUAN CREDIT UNION

Caballeros de San Juan Credit Union is a Chicago community based financial institution that for the past 29 years has provided financial assistance to its vast membership.

Since 1983, aided by CDBG's moneys, Caballeros started an economic development program that has proven to be very successful. The assistance of the City of Chicago Department of Economic Development, enabled the creation of a commercial loan department, a service that not only complemented Caballeros other lendings programs, but filled the economic needs for the businesses that populate the Hispanic neighborhoods in Chicago.

In view of President Reagan's reductions included in his 1987 budget proposal, and the role that institutions like ourselves play in the economic development of our nation, allow us to make the following comments:

1. We believe that the elimination of the UDAG program will seriously affect the economic programs of our communities. Although, we are not active participants in this program, we have witnessed the transformation of our communities vacant lots and dilapidated buildings into modern commercial facilities, all through UDAG's financial means.

2. The elimination of the Economic Development Administration which is the highest leading agency geared to the economic development of our nation, is an indicator that all the related programs so much needed in our cities are doomed for extinction.

3. The intended 30 percent reduction of CDBG funds is going to curtail the ongoing programs that institutions such as Caballeros have been able to set up after lengthy planning and hard work. This reduction, also, means that our preestablished goals could not be met and many of our programs could be lost.

4. We have worked hand-in-hand with the Small Business Administration. For those loans that exceeded Caballeros lending capacity the last resource was always the SBA. Without this agency and with no foreseeable alternatives, our loan production is going to be reduced by a dramatic 65 percent.

When the time comes to shape the final budget plan, please take into consideration our comments. We realize the need to reduce our national deficit, but we also know that in order to ensure the stability of our economic future, whatever resources left in the 1987 fiscal budget, must be fairly allocated.

PREPARED STATEMENT OF REGINA GLOVER, BOARD MEMBER, NEAR NORTH HEALTH SERVICE CORP.

You know better than I the monetary impact of Gramm-Rudman cuts nationally and in Illinois. But, I know the Near North community of Chicago and I know that people are affected by what happens in Washington.

My name is Regina Glover. My life is dedicated to building this community through my job at Tranquility Marksman Memorial Organization and my volunteer work as a Board member of the Near North Health Service Corporation.

I see the way things are going in the Cabrini Green housing development. Over one-third of our births are children having children. More than three-fourths of our households are headed by women. Two-thirds of our community depend on public assistance for a portion of their income. It has been an uphill struggle to offer hope with the increasing lack of job opportunities, and declining programs for poor communities like Cabrini Green.

What future can we offer our children and their children as we see the cycle of poverty repeating time after time?

Yet we have taken positive actions to improve our community, which are threatened by the current budget cutting proposals.

We are working in the community to prevent early pregnancy and strengthen families.

Near North Health Service Corporation is working with the cooperation of elementary schools and parents, to offer family life education to 7th and 8th graders at local schools. They learn about planning life goals and the steps to accomplish them, learn options in relationships—from family to friend and dating relationships.

Near North Health Service Corporation cosponsors four young parent support groups with other community agencies. Young mothers and fathers meet on a weekly basis. Groups are led by trained volunteers who live in the community and have been teen parents themselves. This self help model is one example of community members caring for and guiding each other toward a better future. The model is being applied to preteen males and females as well as mothers of teen parents.

Our efforts to break the cycle of teen pregnancy affect real people. Carmen Vasquez (name changed) is a 19-year-old who left home at 16 because of differences with her parents. She got pregnant and had a baby in August, 1985. In the young parent support group and through home visits by community workers from Near North Health Service Corporation, Carmen is getting her life together. Now she is trained to be a facilitator for the young parent support group. She is working on her GED and is trying to improve her relationship with her mother. To top it off she got married two weeks ago. The Near North Health Service Corporation programs gave Carmen the support she needed to set her life goals and learn to begin to face and solve some of her problems.

I want to tell you about Rosie Adams (name changed), a senior citizen that counts. She and her husband run a program for teens in the Cabrini Green housing project on their own. Mrs. Adams is a severe asthmatic who formerly went to the Northwestern University Allergy Clinic, but due to past Medicaid changes fell just short of eligibility. If she is hospitalized she then becomes added to the welfare rolls due to her inability to pay the extreme health care costs. With intense outpatient services offered at Near North Health Service Corporation she has been well enough to stay out of the hospital. Health costs are much less overall, but more importantly the quality of her life is better. She and her husband can continue to provide the type of example and leadership that builds our community.

Without access to affordable, quality health services and programs that strengthen families and the community from within, I fear vast numbers of our citizens will be written off and left to lead lives of despair and hopelessness. Cuts in programs will only intensify the need for these services. Where will people turn when Near North Health Service Corporation and other publicly supported programs are cut or closed? We need more than a safety net, we need to build a way out of the cycle of poverty, and we have successes to build upon. I challenge you to find the courage to face the proposed cutbacks in human services just as Carmen faced the problems of early parenthood. Millions await your answer.

Prepared Statement of Beverly Guzy, Coordinator of Special Projects, Community High School District 218, Oak Lawn, IL

Community High School District 218 in suburban Cook County in the State of Illinois provides a Chapter 1 program for over 500 educationally disadvantaged students. The District's Chapter 1 project, "Mathematics and Support Services" was awarded national recognition in April 1985, through the Secretary's Initiative to identify unusually effective programs. It was one of eight projects in the State of Illinois and one of 118 projects nation wide to receive this unusually high honor.

The District is committed to serving disadvantaged students with a quality program, but adequate federal dollars are needed to provide these supplementary programs. Federal funds through Chapter 1 have provided extra programs to supplement the services for educationally disadvantaged students, those students most in need of additional services if they are to have an equal opportunity to academically succeed and achieve the goal of high school graduation.

Presently 70 percent of the eligible students are being served under current funding levels. Proposed cuts in funding of 17-25 percent by 1990 would severely reduce the number of students served and the comprehensiveness of the programs offered.

Also impacting Chapter 1 funds is the TEACH bill. The TEACH bill requires local school districts to convert Chapter 1 funds to vouchers on demand by parents of eligible students. The TEACH bill is detrimental to Chapter 1 on several fronts.

REDUCED PARTICIPATION, IMPACT AND CONTROL

Although the primary aim of the TEACH bill is to expand educational opportunities for low income children, the bill in terms of student participation would not increase educational opportunities for the target population. Currently in Illinois, Chapter 1 programs reach approximately 65 percent of all eligible students. In local District No. 218 these programs reach 70 percent of all eligible students, and in the nation, only 45 percent of the eligibles. This bill does not add new funds but certainly will raise administrative costs thereby reducing dollars targeted for instruction. In the bill there is no requirement that voucher funds be used for compensatory education. Currently in Chapter 1 programs, all targeted funds must be used for special services to supplement the regular school program.

ADMINISTRATIVE OVERSIGHT

One of the key problems with the implementation of the TEACH bill would be the administration of the program. The Local Educational Agency (LEA) grantee would be required to make payments to the parent. Once the parent has chosen a voucher option, the local school district will be required to exercise audit control. The LEA would also be required to recover funds which are improperly expended despite the fact that there is no mechanism in the bill to accomplish this. Setting up such administrative procedures and audit control mechanisms would further reduce the amount of funds to be spent on educational programs for the targeted students.

LOSS OF CHAPTER 1 GUIDELINES AND EVALUATION MEASURES

Under the TEACH bill, once the voucher school receives the funds it is not mandated to provide compensatory services. Consequently, the child's voucher could essentially be used for general aid without any requirement that federal aid be used for the needed compensatory education services. Three key areas that could be waived in the voucher plan are supplement v. supplant, maintenance of effort and comparability of services. Additionally there are no means to evaluate the progress of voucher children since no evaluation is required in the TEACH bill.

In conclusion, although the TEACH bill is purported to be a means by which parents of educationally disadvantaged children can seek viable educational alternative of their choice, in reality it is a major general aid bill of Federal aid for private school education. In concept it may be detrimental to public education but in design it is detrimental to Chapter 1. Present Chapter 1 legislation provides adequate quality control measures and state oversight to ensure programs and services to targeted populations.

The TEACH bill would dissipate resources as a result of new administrative costs, a reduction in numbers of target students served and a reduction of program effectiveness at the original Chapter 1 grantee location. Administrators in the local school districts in addition to supervising their own programs would have to serve as pay masters, auditors, bill collectors, and supervisors, for parents in the voucher program and in the schools where the students attend.

The challenge of the budget committee is to allocate 1987 fiscal resources wisely and fairly. The Chapter 1 program, in its present form and supported by adequate funding, is a means to impact underachieving students. It has documented its effectiveness across the nation and is well recognized as a program that works. On the local level the program's impact on students is seen every day. It is necessary that full funding be provided to continue a commitment to serve this target population.

PREPARED STATEMENT OF RICHARD D. TURNER, SENIOR VICE PRESIDENT, SOUTH SHORE BANK OF CHICAGO

The South Shore Bank of Chicago believes the Small Business Administration's lending programs are worth retaining. The Bank, recently cited in a New York Times article as having catalyzed the redevelopment of the inner city neighborhood surrounding it, can point to SBA's guaranty lending program in particular as one of the prime tools used in this process.

The existence of SBA has helped the Bank in two ways that are not readily apparent but of vital importance in the redevelopment effort. We are a $120 million institution at present—still medium size at best for a community bank in a large city—but averaged only $60 to $70 million in assets in the initial stages of our development commitment in the mid and late 1970's. The preservation and upgrading of the large number of multi family apartment buildings in the South Shore neighborhood represented our most immediate priority. Having by now committed nearly $20 million in mortgage loans to building owners in South Shore—all of the $20 million unguaranteed—we are witnessing a solid increase in real estate values and the entry of developers and other lenders into the field. While the Bank was determined to proceed with a substantial real estate lending effort and would have done so with or without a guaranty mechanism for commercial loans to small businesses, the availability of a risk hedge on the commercial side allowed us to commit a larger proportion of our limited resources to that area than would have otherwise been the case. The guaranty vehicle has also allowed us to more diversify our total loan portfolio and avoid what the regulatory authorities might have viewed as an undue concentration in a type of real estate lending that to our knowledge no other bank in the country has undertaken to the degree we have.

Inasmuch as the presence of a guaranty has also allowed us to aggressively pursue small business lending in our minority neighborhood, the Bank has been able to solicit deposits to support these initiatives from institutional investors around the country ranging from major corporations to church groups. The recycling of such deposits, which are a significant source of funds for the Bank, into loans for local business represents an unusual reverse flow of funds into an inner-city economy—again, while this would have been done if there had been no SBA, the Bank's efforts have been augmented and made easier by the presence of small business guarantees.

The arguments for retention of SBA centering upon its stimulus to job creation have been made many times in the last year. We also believe OMB's arguments for the benefits that would be realized by the abolition of SBA are largely misleading and have been shown to contain manifest inaccuracies. Even if the Administration's current plan for the dismemberment of SBA were accepted the small dollar savings would be vitiated within two years by the absence of a stream of loan payments because the portfolio would have been sold off for a fraction of its value.

The U.S. Chamber of Commerce, hardly an exponent of expansion of Government, recently observed that rather than being eliminated, SBA should serve as model for the proper direction for Federal programs. Certainly, hardly anyone disputes that the Agency's direct lending should end. The delegation of SBA lending authority to certain experienced lending institutions, an innovation which has improved delivery of resources to small business while lowering the cost, should be further encouraged. Additionally, there are some technical changes in the lending program's administration which if implemented could further decrease the cost to the taxpayer and perhaps even allow the guaranty program to pay for itself. Primary among these changes would be requiring banks to liquidate their own defaulted loans and lessening the period after default during which banks could bill the Agency for accrued interest.

The SBA's loan functions have helped small business. To abolish something which is making a contribution to the economy to satisfy a narrow ideological pique is foolish, and something we cannot afford. The lending program can be further improved; give us the chance to achieve these improvements.

PREPARED STATEMENT OF LELAND L. WALTON, VICE PRESIDENT, ILLINOIS FEDERATION, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

My name is Leland L. Walton. I am Vice-President of the Illinois Federation of the National Association of Retired Federal Employees. I welcome the opportunity to appear before you today to present our views with respect to the portions of the President's Fiscal Year 1987 Budget which directly affect our half million members and their families.

We keenly are aware of the need for a balanced budget. Without taking the time to cite each, on ten occasions in the last nine to ten years, either Congress or the President has cut benefits accruing to retired federal employees by virtue of legislation passed by earlier Congresses. The latest came about as the result of Gramm-Rudman. We lost the 3.1 percent cost of living adjustment (COLA) because of a retroactive provision of the Act. I thought ex-post-facto laws were prohibited by the Constitution. Are we second-class citizens? Social Security recipients specifically were exempted from suffering loss of the COLA. We are affected by inflation the same as everyone else. Rent, heating, grocery and clothing bills grow larger each year.

The average annuity of a Federal retiree is not significantly larger than the average pension of a person under Social Security. We pay income tax on the total annuity—the Social Security beneficiary pays no income tax except on his income in excess of $25,000 and that only since 1984. Our loss of the COLA is not a one-time incident. We lose that 3.1 percent each year for the remainder of our lives. The President's 1987 budget denies us a COLA but authorizes it for Social Security recipients. Is it because there are 20 million voters under Social Security and only 1.9 million voters under Civil Service retirement? Are we not being forced to give up more than our "fair share"?

The budget calls for an increase in military expenditures and no increase in taxes. It is impossible to balance the budget by curtailing expenditures for non-military purposes, or even by curtailing them too. The real causes of the massive deficits in recent years are military spending, tax loopholes, and the unconscionable reductions in income taxes paid by wealthy individuals and corporations. The average federal retiree, as well as the average citizen, has no opportunity to utilize tax loopholes.

These are the matters we feel your Committee and Congress should address in your budget deliberations for fiscal year 1987. Thank you.

PREPARED STATEMENT OF STATEWIDE HOUSING ACTION COALITION

A CITIZENS' MESSAGE TO CONGRESS: DON'T CUT AID TO CITIES!

President Reagan's 1987 budget would be disastrous for Chicago, and for housing in particular.

The Statewide Housing Action Coalition (SHAC) as well as neighborhood groups from all over Chicago are here today to protest this budget and to urge the House Budget Committee to reject Reagan's proposals.

President Reagan asserts that he wants to reduce the deficit, yet he proposes an eight percent increase in defense spending while slashing domestic programs. Since Reagan took office, defense spending has risen more than 50 percent, while every year domestic programs have been cut. Meanwhile, the deficit has soared. "Clearly, the President has no interest in reducing the deficit. He uses the spectre of the deficit to accomplish his real agenda: halting aid to cities," charges Arvis Averette of the Chicago Urban League.

Chicago continues to suffer as a result. Homelessness has reached crisis proportions, with estimates of 25,000 in the city. Yet Reagan wants to deprive our city of $14.1 million desperately needed to provide housing for low-income people. He wants to halt all federal aid for construction and rehab of low-income housing, while providing no funding for subsidized housing. An additional $12.6 million cut in CDBG funds would further cripple the city's housing programs. "Furthermore, President Reagan would punish the victims of his disastrous policies by eliminating funding for emergency food and shelter," says Hans Hintzen of the Coalition for the Homeless.

Every year we have been faced with drastic domestic cuts, and every year citizens have fought back to limit the scope of the cuts. This year, the pressure imposed by Gramm-Rudman to decrease the deficit will make it even harder for Congress to withstand Reagan's attempt to dismantle federal aid to cities.

We want to remind the Congress that President Reagan's so-called attempt to reduce the deficit is concentrated on a mere 10 percent of the entire budget—grants to cities and states. This is the same category he has been whittling away at since 1981, while the deficit continued to soar. We urge Congress to take other measures to reduce the budget—including cutting defense and finding new sources of revenue. But don't cut aid to cities. The terrible social costs far outweigh the limited impact such cuts have on deficit reduction.

RESERVE OFFICERS ASSOCIATION OF THE UNITED STATES, DEPARTMENT OF ILLINOIS

(Presented by Lt. Col. R.T. Olson, USAF, retired, Feb. 5, 1986)

The President of the Illinois Department of Reserve Officers Association has requested me to represent our association at a meeting scheduled for 10 February 1986 which you requested. I understand that you would like information as to how a reduction in the Federal Budget might affect the military in Illinois. Since we are not sure as to exactly where such a reduction might come or the degree of any reduction it is premature to address this subject with any degree of accuracy.

We have had some preliminary interpretation of the effect of the Gramm-Rudman-Hollings amendment and I shall address the issues as I perceive them at this time. Also, I will limit my comments to issues which will affect the military Reserves in Illinois.

As you know the military Reserves have been tasked to perform over 50 percent of the combat missions should the United States become involved in a national emergency or war. The military Reserves are composed of citizen-soldiers who work on a regular civilian job 5 days a week and train on weekends to maintain their military combat readiness. These citizen-soldiers also perform a minimum of 2 weeks' active duty training each year. Many must give up their family vacation to perform this 2-week tour. Thus, we are tapping the spare time of the military Reserves. The personnel cost of maintaining the reserves is only 35 percent of the cost to maintain the same combat capability with regular troops. This is in fact a bargain for the American people.

Altogether, too often when there is to be a reduction in budgets the powers to be usually make cuts and/or reductions across the board where nearly every unit or organizational funds are reduced by the same percentage. If in an attempt to reduce the budget and the Reserve budget is reduced by the same percentage as the active duty military budget, it would seriously effect the combat capability of both the active force as well as the Reserve combat capability. In our opinion such an across-the-board reduction would be unwise because of the significant cost saving to maintain the same combat capability with the military Reserves. If the active force budget is reduced it would seem prudent to increase the military Reserve budget somewhat because you can buy the same combat capability at only a fraction of the cost. Thus, saving can be achieved and retain the same combat capability with Reserves. Of course, if you intend to assign more combat missions to the Reserves it will be necessary to increase the Reserve personnel authorization as well as additional equipment and/or hardware.

I am a retired Air Force Reserve pilot who served many years with the 928th Tactical Airlift Group at O'Hare. Accordingly, I am most familiar with the Air Force Reserves. At the present time the Air Force Reserve personnel are contributing an average of over 90 days of duty each year to maintain their combat capability. This is a great sacrifice and an indication that we are tapping the maximum spare time these citizens soldiers have to serve in the Reserves. Therefore, any additional combat mission assignment must be accommodated with additional personnel, aircraft, and/or equipment. The presently assigned C-130A model aircraft are 30 years old, the maintenance costs are high and mission capability is limited as compared with the newer C-130H models such as being furnished to the Pittsburgh Air Force Reserve unit this year. During our luncheon meeting in Washington D.C. last Wednesday January 29) we requested that the Illinois Congressional Delegation take appropriate action to obtain eight (8) new C-130H aircraft replacing the 30 year old C-130A models. Such an achievement will to some degree, reduce the operation cost and simultaneously give the 928th Tactical Airlift Group increased combat capability. This request is in line with the Congressional mandate to modernize the reserves. It is also consistent with Congressional action during the last eight years since eight new C-130H aircraft have been purchased for the Guard and Reserves. This year (fiscal year 1987) we solicit the support of the entire Illinois delegation to obtain these new C-130H aircraft for the 928th TAG at O'Hare ARFF.

During our luncheon meeting last Wednesday Congressman Henry Hyde indicated that if the Gramm-Rudman-Hollings Act was implemented it could reduce the military operational capability by at least 60 percent. We concur with Congressman Hyde that our interpretation of this Act, if implemented, would have devastating effect on the Reserves. In the case of our 928th TAG unit at O'Hare, n operational funds are reduced, the present combat ready status would be significantly reduced. The same is most likely true with all Reserve units be it Army, Navy, Marines or Coast Guard. It should also be noted that at the present time nearly all military Reserve units are operating with old "hand-me-down" equipment. Congress should continue to modernize the Reserves by procuring new equipment each year and placing this equipment directly in Reserve units.

In closing, we are of the opinion that there should be *NO* reduction in the military Reserve budgets. We also feel that Congress must establish priorities. The first priority must be funds to pay the administrative cost to run the United States and the second priority should be National Defense. All other programs, including social programs, should have a lesser priority.

I will meet with you next Monday, 10 February, as requested, and will answer any questions you have to the best of my ability.

RESERVE OFFICERS ASSOCIATION OF THE UNITED STATES, DEPARTMENT OF ILLINOIS

(Presented by Lt. Col. R.T. Olson, USAF retired, Feb. 11, 1986)

This report on the Budget Committee hearing is submitted in compliance with your letter dated 3 February 1986 addressed to Col. Richard Palewicz, USAR, president, Reserve Officers Association, Department of Illinois. Since I am chairman, Legislative Committee Reserve Officers Association, Department of Illinois, this matter is referred to me for action.

Our association thanks the Committee on the Budget for the invitation and the opportunity for one of our members to attend the Budget Committee Hearing on 10 February 1986 held in Chicago, IL.

The Reserve Officers Association (ROA) was founded after World War I and chartered by the U.S. Congress during the Truman administration to make recommendations to Congress and assist in maintaining an adequately strong national defense. National defense should be the highest priority of the U.S. Congress. The National defense budget should not be reduced in order to provide funds for social programs.

Although we do not have a copy of the President's proposed budget for fiscal year 1987, we have heard the President's "state of the Union" speech and read accounts of the budget and the Gramm-Rudman-Hollings bill in the local newspapers and heard editorials of both on television. We have learned of nothing in the proposed budget which would seriously hurt the military except for the suspension of Cost-of-Living Adjustment (COLA) for military and civil service employees, retirees and for the possible effect and implementation of the Gramm-Rudman-Hollings amendment. The suspension of COLA represents a breach-of-contract and trust by the Federal Government. When military personnel are recruited and serve for 20 years or more under a plan which includes provisions such as COLA it is absolutely wrong to suspend this provision after it is earned and the citizen retires.

Our national defense military programs involving personnel and equipment are usually multiyear programs. Once the course is charted and goals established, reduction in the annual budget for national defense causes waste of taxpayer's money. When defense contracts are terminated and/or stretched out over longer periods, money is paid but little or no equipment is received, thus, a gross waste of taxpayer's money. As to military personnel, it is stupid to recruit personnel, expend taxpayer's money for training, and then execute reduction-in-force because of a reduction in the defense budget. Discussion in the Congress regarding changes and/or reduction in the present military retirement plan has already had a serious impact on military and civilian personnel. In fact, the matter became so serious that the Secretary of Defense found it necessary to publish an "Open Letter to all Military Personnel" assuring them that any changes in the retirement plan would not affect anyone already in service. Suspension of COLA was contrary to the Secretary's letter.

We are much concerned over the effect of Gramm-Rudman-Hollings as it might affect the combat readiness of both the active force and military reserves. As you know, the military reserves have been tasked to perform over 50 percent of combat missions should the United States experience a national emergency or war. The impact of Gramm-Rudman-Hollings on individual reserve units has not yet been determined.

I was grateful for having had the opportunity to attend the hearing in Chicago on 10 February 1986 and hear the testimony of those who testified. I arrived at the hearing early and obtained a copy of agenda and listing of individuals scheduled to testify. By reviewing the listing of individuals scheduled to testify the tone of the hearing could easily be predicted. My prediction was correct. The hearing was designed to hear only those who strongly oppose the President's proposed budget. In my opinion it was not an open forum to hear the "pros and cons" of the proposed budget. It was biased for social programs only.

Reserve Officers Association of the United States

(Presented by C. J. Lively, Jr., Colonel, USA, retired, Feb. 25, 1986)

The members of the Reserve Officers Association (ROA) appreciate your soliciting written testimony from the Illinois Department as a part of House Budget Committee hearings. Colonel Olson has provided the enclosed comments and materials.

While the comments are those of the Illinois Legislative Committee Chairman, the ROA supports the concerns expressed. It should be noted that the association has adopted a Resolution opposing the elimination of educational assistance (the New GI Bill) called for in the President's FY87 Budget. The ROA believes that educational assistance is an important recruiting tool and that the benefits should be retained.

The Reserve Officers Association is distressed by a frequently expressed view that "fairness" requires that, for every dollar cut from a domestic program, the defense budget should be reduced by an equal amount. The "fairness" philosophy assumes that funds spent on social programs are equally as vital to the Nation as dollars spent for defense. No responsibility of the federal government is greater than that of national security. No one has demonstrated that the threat to the security of this nation has diminished, and yet there are those in responsible positions who would be quick to reduce defense capabilities as a response to the need to reduce Federal spending. Defense spending must be based on need, not on some desire to spend less.

In scrutinizing the fiscal year 1987 budget, the committee must be aware of the importance of the Reserves as a part of the total force. In proper balance, the Reserves can provide defense capabilities at a fraction of the cost vis-a-vis, the active force. Increasing the responsibilities of the Reserve force can and should be considered as a possibility in reducing defense costs. But across the board cuts must be resisted. Funding for the Reserve must be increased if there are to be any budget reductions without seriously impairing national security.

I appreciate your consideration of ROA concerns.

PREPARED STATEMENT OF JAMES D. BARRY, PH.D., VICE PRESIDENT AND ASSISTANT TO THE PRESIDENT, LOYOLA UNIVERSITY, CHICAGO

Permit me to open this testimony on President Reagan's proposed fiscal year 1987 budget by exploring a significant and unfortunate result of the implementation of his proposals. If the proposals to reduce student financial assistance were to be supported by the Congress, one result would be a failure to develop the nation's collective intelligence. We would never know what such a loss entails because such a loss could not be made up!

I am particularly concerned about the ways in which the nation's high school juniors and seniors and their parents will respond to the President's proposal. My fear is that these students and their parents will, in large numbers, perceive that they cannot afford higher education and that they will decide not to apply for admission to college.

Let us not sent a message to our high school students and their families that they will not be able to afford higher education. Let the Congress write its own budget, a budget that assures the continuation of programs of student financial assistance that have worked so well. The cost to the Nation of young people not developing their potential by higher education could not, in my judgment, be measured in dollars. This failure would be nothing less than a failure to develop the Nation's collective intelligence!

Next, I endorse the position of DePaul University President John T. Richardson, C.M. as presented during the February 10, 1986 session of the House Budget Committee in Chicago. I note particularly his emphasis on the need for deficit reduction, on the importance of student financial assistance for middle and lower income families, and on the necessity to preserve access and choice for our young people about to begin their post-secondary careers.

Finally, let me provide you with some detail on the benefits to Loyola University students of Federal programs.

In a standard report used throughout the State of Illinois, we read that in the year that ended June 30, 1985, 4,336 Loyola students received Federal student financial assistance (grants, loans, and work programs) totaling $7,582,344. Particularly noteworthy programs within this total are these:

Program	Amount	Students
Pell Grants	c $2,400,000	c 2,000
National Direct Student Loans	c 1,100,000	c 700
Health Education Assistance Loans	c 1,100,000	c 225
College Work-Study Positions	c 570,000	c 525

These are, I believe, impressive totals, but they are misleading unless one goes on to study those portions of this standard report that refer to Illinois programs and to "other" programs. When one continues this study, it becomes clear that the Federal guaranteed student loan program is classified under the various states from which the students come. I can provide that information in two lines: Under the guaranteed student loan program

c. 3,700 Illinois students borrowed c $11,600,000.

c. 350 non-Illinois students borrowed c.$ 1,600,000.

Another report, this one to the Department of Education, reveals that in this same year over 2,000 Loyola students came from families whose taxable plus non-taxable income was under $30,000 and that of these over 1,200 came from families whose income was under $18,000. Also, over 1,400 minority students, 2 out of every 3, receive at least one form of financial aid. Let me also note that Loyola University provided grants, loans, and work opportunities for c.5,600 students to a total of c.$10,000,000.

Thank you for the opportunity of filing this testimony.

Prepared Statement of Michael J. Schclefield, Deputy Director, South Suburban Mayors' and Managers' Association

The administration's proposed fiscal year 1987 budget outlines drastic revisions to federal participation in public works, particularly in relation to transportation.

Based on preliminary review of the proposal, substantial changes have been recommended in terms of replacement of specific programs with a "block grant" for local road, bridge, and transit projects. While the concept in the long term may have merit, considerable attention is required from both a procedural and monetary position.

The block grant concept as presented does not provide for an orderly and equitable distribution of funds, nor does it provide for local input in relation to priority development.

The proposed funding level of $3.3 billion represents a reduction of $4.6 billion from fiscal year 1986, a point which is perplexing given the recent American Road and Transportation Builders Association (ARTBA) report identifying transportation capital needs that must be addressed over the period 1987 through 1996 $494 billion in highways $27 billion in airports $82 billion for mass transit $56 billion for railroads and $6 billion in waterways and ports.

In reference to highways, Northeastern Illinois has conducted one of the most successful municipal/county/State/Federal road construction partnerships in the country. In great measure, it has succeeded through the Federal-Aid Urban Program. FAU procedures and policies have been applied to various supporting transportation initiatives and has proven a valid format for assuring local involvement in the decisionmaking process. The current proposal would dismantle FAU with no assurance of a viable replacement.

The proposed elimination of Amtrak subsidies and airport improvement grants with a vague dismissal that the private sector will fill the breach is unsound and unsubstantiated.

In order to address the accelerating list of infrastructure in need of repair and replacement, consideration of ARTBA recommendations is suggested, namely:

—The Highway Trust Fund should be kept separate from budget cuts as permanent and exempt source of capital for transportation improvements;

—Federal motor fuel tax increase should be evaluated;

—Elimination of 6-cent-a-gallon subsidy on gasahol should be reviewed;

—Review Davis-Bacon (work rules) and minority business quotas from both cost-effective and meeting the intent of the respective mandates should be considered.

In the foreword to the ARTBA study, the authors comment that "the true history of the United States is the history of transportation."

It is imperative that the issues before Congress and the administration are considered in the perspective of providing for a "dynamic" economy dependent upon an infrastructure in need of expansion, repair, or replacement.

The South Suburban Mayors' and Managers' Association appreciates the opportunity to address its concerns to the Committee on the Budget, U.S. House of Representatives.

Prepared Statement of William Foster, Director, Chicago Rehab Network

President Reagan's 1987 budget would be disastrous for Chicago, and for housing in particular.

The Chicago Rehab Network, a coalition of neighborhood-based, nonprofit developers of low-income housing, strongly urges the House Budget Committee to reject the President's proposals.

President Reagan asserts that he wants to reduce the deficit, yet he proposes an eight percent increase in defense while slashing domestic programs. Since President Reagan took office, defense spending has risen more than 50 percent, while every year domestic programs have been cut. Meanwhile, the deficit has soared. Clearly, the President has no interest in reducing the deficit. He uses the specter of the deficit to accomplish his real agenda: Halting aid to cities.

Chicago continues to suffer as a result. Homelessness has reached crisis proportions, with estimates of 25,000 in the city. Yet the fiscal year 1987 budget deprives our city of $14.1 million desperately needed to provide housing for low-income people. It eliminates all Federal aid for construction and rehab of low-income housing, while providing no funding for subsidized housing. An additional $12.6 million cut in CDBG funds would further cripple the city's housing programs. Furthermore, President Reagan would punish the victims of his disastrous policies by eliminating funding for emergency food and shelter.

Since President Reagan took office in 1981, housing programs have suffered a 68-percent cut. Fiscal year 1987 proposals would result in a 91-percent reduction in housing programs targeted to low-income families. Elimination of the Rental Rehab and HODAG programs would result in a loss of over 1200 units of housing in 1987. These units are desperately needed to replace thousands of units which each year succumb to deterioration and abandonment in Chicago's neighborhoods.

In addition, the cuts in the CDBG program mentioned above will result in the loss of millions of dollars in private sector leverage funds for the Chicago Housing Partnership, a successful public/private partnership. It is clear that these cuts impact not only on the public sector's ability to provide housing, but on the private sector's ability as well. In today's economy, it is simply not possible for the private sector to provide low-income housing without help from the public sector. The costs of building and maintaining such housing are far too high for owners to keep rents affordable and still make a profit. The private sector will clearly not be able to fill the void left by withdrawal of public money. The public/private partnership will cease to exist.

Every year we have been faced with drastic domestic cuts, and every year citizens have fought back to limit the scope of the cuts. This year, the pressure imposed by the Gramm-Rudman Act to decrease the deficit will make it even harder for Congress to withstand Reagan's attempt to dismantle Federal aid to cities.

We want to remind the Congress that President Reagan's so-called attempt to reduce the deficit is concentrated on a mere 10 percent of the entire budget—grants to cities and States. This is the same category he has been whittling away at since 1981, while the deficit continued to soar. We urge Congress to take other measures to reduce the budget—including cutting defense and finding new sources of revenue. But don't cut aid to cities. The terrible social costs far outweigh the limited impact such cuts have on deficit reduction.

Prepared Statement of Otto Whitehill, Executive Director, Chicago Association for Retarded Citizens

Several members of Chicago Association for Retarded Citizens have participated in the hearings which you chaired in Chicago in regard to the national budget presented by President Reagan.

We appreciated the invitation to these hearings and would like to give you a broad general response. It is apparent that federal funding which touches the lives of the developmentally disabled is going through a sharp process of sequestering and will hurt our present programs.

Specifically we find that the HUD Section 202 Loans will be affected by a cut of $100 million a year for housing of the handicapped, in addition to huge cuts in "assisted housing" programs. Many of our clients are presently able to manage their lives in the mainstream of society by virtue of being assisted in their rent payments. Any reduction in such funding is likely to result in their having to apply for welfare and instead of a tax payer become a burden to society. A voucher program for such individuals is very complex and presents a difficulty in using it.

Vocational rehabilitation grants have been cut by $90 million, developmental disability grants by 7.7 percent and special education programs (94-142) received a cut of $80 million.

In the recent state of the State Address, Governor Thompson of Illinois, indicated that on the whole and specifically developmental disabilities will be governed by a "maintenance" budget. Since we are locked into the rising cost of living, "maintenance" represents a 4 to 5 percent cut on a State level.

You can see that we are presently facing the most serious reductions ever, and that the cutting of programs does not mean a saving of Federal funds, but often is the shifting of the areas in which funds will have to be expended. For instance, people who are capable of being trained and learn skills and have to be supported in this effort, in so many instances become individuals starting a career on welfare.

This is a bird's eye view of what we anticipate as a result of the President's budget. We are looking in every direction for ideas, new or old, to try to alleviate this serious situation. We are, of course, fully aware of the need to deal with the deficit on a national level.

PREPARED STATEMENT OF JAMES BASSETT, COMMUNITY DEVELOPMENT DIRECTOR

The Village of La Grange would like to thank this Committee for the opportunity to express our views on the President's proposed 1987 budget. The Village of La Grange is a small suburban community (15,693) located in Cook County, Illinois. We are only one of the 135 communities represented by Cook County in their CDBG Program.

The Cook County Community Development Block Grant Program has been a Godsend to many of our poverty-level residents. We have accomplished tasks from drastically needed capital improvements to residential rehabilitation programs. Without these Federal funds, administered through Cook County, it would not be possible for our Village to have made a significant impact on the quality of life in our depressed neighborhood.

We wholeheartedly concur with the testimony previously submitted by Suzanne M. Hayes, Director of the Cook County Community Development Block Grant Program. The proposed reduction in CDBG funds will have a deleterious effect on the redevelopment of our neighborhoods.

I would also like to note that the Suburban Advisory Council met this past week to discuss eligible activities for next year's program in light of the perceived 32 percent reduction in funds. The Suburban Advisory Council, comprised exclusively of mayors and village presidents in Cook County, voted unanimously to limit our eligibility guidelines to single-family residential rehabilitation and capital improvements directly associated with this rehabilitation. This means that no money will be provided for senior citizens, handicapped individuals, etc. This, in our opinion, is a travesty.

We certainly appreciate the opportunity you have given us to testify before your Committee.

PREPARED STATEMENT OF GUS WILHELMY, COFOUNDER OF SAFER FOUNDATION

My name is Gus Wilhelmy, Cofounder of Safer Foundation, a not-for-profit organization which has dealt with over 45,000 youthful-adult offenders in the last fifteen years. Safer recently was honored when Chief Justice Burger presented his famous "Factories Behind Fences" speech in Chicago at Safer's annual banquet. This speech highlights clearly the need for social services inside and outside of prisons. Economics is the problem.

Balancing the budget is critical for the survival of a nation. Deficit spending gone awry places all in jeopardy. The Wall Street crash of 1929 can become the Pennsylvania Avenue crash of 1986.

The question is how do we balance the budget. Do we use a sword to slash line-items by amendatory veto power—cutting line-items directing dollars to cities and States?

Do we divert immediately a disproportionate amount of dollars to a military complex necessary to defend the Nation?

Such an approach is enigmatic. If we allow our cities to die, what are we defending?

The answer of those promoting the Gramm-Rudman Act is that we are not asking the cities to commit suicide. The act is not a threat to worthy programs in the cities, but is an effort to help cities prioritize basic needs.

Basic service needs such as police and fire departments in our cities will always be met—but social services to elderly, to children, to abused women, to blind, to undereducated, to unemployed, will all be cutback.

Social services as usual bear the immediate brunt of the cutbacks. To do drastic surgery without preparing the room, without finding the expert surgeons, and worst of all without preparing the patient, is tantamount to homicide.

Taking away social services without allowing the cities and the states time to *plan* is to create a greater enemy within: the enemy is poverty out of work roaming the streets in search of survival.

Lincoln once said that this country will not fall at the hand of foreign powers from without, it will only fall at the hands of social and civil discontent from within.

Today our large cities are dominated by disenfranchised persons on the quest for an opportunity to achieve the American dream. Many are minority males who ultimately end up on Safer Foundation's door step. The profile of this lean poverty-stricken man is: Unemployed—40 percent out of work; dying violently—60 percent fall to a gun or switchblade; uneducated—50 to 70 percent are school dropouts.

This population comes to Safer 5,000 strong each year. A job, an education, an emergency service, does make a difference.

Forget that some "so-called" experts are denying the relationship of crime and poverty in America. There is a tremendous direct correlation. Safer has Research Triangle Institute of North Carolina, the Lazar Institute of Washington, D.C., many experts from the University of Chicago and other leading academic institutions in the area saying: crime repeated is directly related to poverty and unemployment.

Even the recent upturn in the economy which we all applaud has not touched the young minority males trapped in the inner city.

A system must be designed and implemented by which this group, trapped in hopelessness, becomes vested. Not to invest in this disenfranchised group is to create greater chaos and crime.

We are sitting on a social time bomb that will make Hiroshima or Nagasaki look like a child's war game if we do not diffuse it. This is not rhetoric.

Crime is the common denominator stemming from poverty leaving minority males alienated and isolated from main stream America. Deteriorated housing, inferior education, vanishing business, lack of family, reflect a systemic social cancer.

Some of the symptoms of this cancer in the young are: Low self-esteem, misplaced trust, inability to use the business language of opportunity. All these factors lead youth to crime or violence as the only alternative.

Investment in social services such as job training, the 3 R's, hard-nosed counseling, and a quasi "Boot Camp" of positive value bombardment, are the basic elements.

Nonetheless the reaction of society is often confused. The "I'm mad as hell and I am not going to take it anymore!" of Network polarizes the societal response. Frustration and anger strike deep in the pit of society's stomach.

But in balancing the budget there is a solution to this age old problem of "cutting social services" to avoid deficit spending. Anger is a waste of societal energy.

Extend the time to work out issues with the cities and states re Gramm-Rudman cutback! Cutback with a careful plan. Give the cities and states time to present a strategy which will create new revenues from within.

Reward those cities and states which come up with a good plan phasing in cutbacks slowly and realistically.

To take away social services without a plan and the time to plan is to create more chaos and crime especially among the already disenfranchised.

Work by evolution and not revolution. A process of careful planning between Washington and our cities will create a societal insurance policy against the demise of our cities.

A social service dollar can work hard to produce a low rate-of-return on crime caused by poverty. We must set up a cost-effective security system by planning collaboratively.

If this Nation is going to reach for the stars as our President wishes, it must achieve a technological competence based on a level of educational expertise way above basic survival needs.

The strategic defense system needed to ward off the enemy is not found in the macrocasm but in the microcasm.

The Star-Wars Defense system of outer space may ward off an invasion from without. But only a very careful strategic social plan can ward off the enemy of poverty and crime from within.

We can't curtail the national debt by increasing monetarily our defense in the macrocasm of the stars. The microcasms of our cities need defending with a transfer of some dollars from one area to the other. Some swords must be traded in for the basic bread and butter of employment and education for Americans.

Thus, the budget will ultimately be balanced if we plan together—and Abraham Lincoln's admonition will never come true.

PREPARED STATEMENT OF BETHEL NEW LIFE, INC.

As the director of a community service organization in a community that has 40,000 people and a 35 percent unemployment rate and an infant mortality rate higher than any country in the western hemisphere except Haiti, and where the struggle is for survival I can only look at the proposed budget as a DEATH-DETERMINED budget.

When people struggling for life in a country as wealthy as America, it seems EVIL to take money out of WIC and housing for the homeless and all these programs and put it into ill-fated spacey STAR WARS.

Yes, we know that the deficit needs to be reduced. But we would suggest that this country will only be strong when we spend more money on keeping people alive than we do on figuring out how to kill people better.

Where should the adjustments be made to make a human-oriented, yet reasonable budget? It seems so simple:

(1) Raise the taxes on corporations; just add back the cuts given to the wealthy and corporations at the beginning of the Reagan administration and you would have a lot of money.

(2) Cut the waste out of the defense budget; cut out Star Wars; it is agony for us in this community to read about the cost overruns and the corruption (General Dynamics) in the defense situation when people are dying around us for lack of the basics of life. Reduce the defense budgets. Enough bombs and weapons are enough.

Each time we see an infant dying in our community because of malnutrition and lack of pre-natal care, we hold you responsible. Aren't we worth more alive than Star Wars?

Do not reduce the community development funds they are life and death to communities like ours. Instead, cut the defense budget and raise the corporate taxes and the taxes on wealthy people.

PREPARED STATEMENT OF HARRY N. GOTTLIEB, DEPUTY DIRECTOR, LEADERSHIP COUNCIL FOR METROPOLITAN OPEN COMMUNITIES

The Leadership Council is a fair housing organization which has worked in the Chicago metropolitan area for twenty years. Our objective is to end housing discrimination in Chicago and its suburbs, and to make it possible for all persons to have decent housing in a location of their choice, whether it be city or suburb.

Part of our concern is that minority families, blacks and Hispanics especially, are disproportionately in the very low-income category, and it is upon them that any cuts in federal housing funds fall most heavily.

While we are fully aware of the need to constrain the growth of federal budget deficits, we are also aware of how deeply housing programs have already been cut since 1980. We consider that the 1986 appropriation bill which provided for about 100,000 units of additional assisted housing, is a minimum that should be acceptable to a humane government.

Knowing that subsidized housing would be less plentiful in the future, and partly motivated by the administration's encouragement of public-private partnerships, the City of Chicago along with neighborhood groups and major Chicago banks, businesses, and industries have formed the Chicago Housing Partnership (CHP).

The function of the partnership is to provide equity funds, below-market rate mortgages, and cheap secondary financing to permit rehabilitation of rental housing in Chicago's low-income neighborhoods without pricing the occupants out of their apartments. The CHP already has over 500 units being rehabilitated, and is prepared for at least comparable performance annually.

But now the administration proposes to end the Rental Rehabilitation program and to sharply reduce Community Development Block Grant funds. It is from these programs that Chicago has provided the essential secondary financing for the neighborhood-based rehabilitation projects. If such funds are not available, the public part of the public-private partnership will be in default. Low-income people and neighborhoods will be the losers.

You must know that there is a desperate need for low income housing assistance in the Chicago area. From 40,000 to 50,000 families, mostly minorities, are on Section 8 waiting lists. Neighborhoods continue to be devastated by abandonment of multi-family housing. There are homeless people on our streets.

We believe in the ability of the Congress to produce and stand by a budget that is both practical and compassionate. Please do not let us down.

PREPARED STATEMENT OF SUZANNE M. HAYES, DIRECTOR, COOK COUNTY COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

Cook County and the one hundred and thirty-five (135) communities it represents for the Community Development Block Grant (CDBG) Program thank this committee for the opportunity to express our views on the President's proposed 1987 budget. This budget not only reduces, once again, funds to be made available in 1987 for CDBG, but also defers an additional $500 million in 1986 budget authority. The impact is a 32 percent reduction in 1986 CDBG funds which goes well beyond the intent of Gramm-Rudman, with no relief in 1987 budget authority. We are essentially back to 1976 levels, but with an increased low and moderate income population and higher unemployment rates than in 1976. In addition, the number of our suburban communities now UDAG eligible has increased to 15 in 1985 from 5 in 1980. In our suburban communities we continue to see plant closings and lay-offs, disinvestment in property, and increasing requests for Government services at a time of declining local financial resources. The great recovery that the President refers to is not evident here. The budgets of our low-income households and the elderly will be adversely affected by the 1987 proposed budget as will the future of our urban environment. The next generation will pay dearly for our neglect.

Both nationally and in Cook County, statistics have shown that 95 percent of CDBG expenditures benefit low and moderate income persons, well above the 51 percent mandated by Congress. The remaining 5 percent are used to eliminate slum and blight, such as the demolition of abandoned and hazardous structures. Cook County coordinates the CDBG Program with the Job Training Partnership Act and other activities related to urban redevelopment and expanded employment opportunities for low-income persons. All of the activities are in jeopardy with this budget. We feel that the continuing assault on nondefense spending is not only unfair, but unwise as well. Our 1986 entitlement reflects a cut of 46 percent since 1980 while the defense side has soared for questionable and complicated weapons. We are not beneficiaries of the defense spending, but we do feel the economic impacts of the withdrawal of such huge amounts of domestic spending from our economy.

The Cook County CDBG Program and other HUD programs which Cook County administers, provide private-sector employment. Our programs are primarily "hardware"—housing rehabilitation, improvements to the infrastructure, especially for public health and safety, and job creation activities with the private sector. Approximately 85 percent of the CDBG funds find their way into the private-sector payrolls of contractors. During 1985, CDBG outlays for capital improvements, all made to private contractors, amounted to $8,946,000 and employed 1,514 persons. Housing rehabilitation expenditures were $4,430,000, providing for 543 contracts to small businesses and their work crews. All of these expenditures benefited low-income households, low-income neighborhoods, and handicapped adults.

Without CDBG, none of this activity would have occurred. Low-income households cannot borrow money from traditional lending institutions, even at a zero interest rate, to repair their property. Improvements to the urban infrastructure for repair of water, sewers, and streets, are very costly and in low-income areas not feasible without CDBG assistance. Small communities, especially those of low- and moderate-income, do not have access to the bond markets and, they cannot raise property taxes where households just cannot afford it. Yet many of the capital improvements are mandated by other government statutes. They just will not be done.

We have found that CDBG encourages other investment in housing and business. The private investment also generates employment. If we have $4,250,000 less in 1986 and 1987, it is the equivalent of losing a major employer with a $12,750,000 payroll—permanently. The people that will suffer are low-income, and it is unlikely that they will replace these funds with private borrowing and higher property taxes. We are losing our ability to turn around disinvestment in many communities. Loss of jobs and property disinvestment also translates into the erosion of local government resources (sales tax revenue, property tax declines) and thus the ability of local governments to meet the service needs of its residents. Despite all the critics, there is a real and necessary economic relationship between government and the private sector. The basic needs of our residents, especially low-income households, the elderly, and the handicapped are the responsibility of government. The private sector and volunteerism will not take the place of CDBG for loans to low-income persons or provide funds for capital improvements.

In order to cope with the loss of 32 percent in CDBG, Cook County is forced to eliminate several valuable programs and cut back on housing rehabilitation. A lot of people are going to suffer, from the elderly lady who needs her home repaired to the contractor who won't be employed to rehabilitate the home. We can no longer afford to rehabilitate or expand sheltered workshops for mentally handicapped adults. CDBG could justifiably be placed on the exempt side of Gramm-Rudman because it is a low-income program, a part of the "safety net." This has been proven time and again.

The President's 1987 budget is not only out of balance financially, its ever more out of kilter in its priorities. Family budgets will not benefit with higher costs for services, housing, and transportation. If future generations judge us on this and other budgets, it will not be a kind judgment. We are leaving them with a decline in the quality of life that will saddle them with even bigger bills to reverse the decline. Will they really appreciate all this defense spending in peace-time? At the rate we are going, will anything be left that is worth while defending? If people in need cannot turn to their government, to whom can they turn? We urge you to consider the needs of your constituents in the difficult days ahead, to continue to support the 50-year-old national policies and goals of a decent home and suitable environment for every American. A strong Federal role in urban development came about out of necessity and the inability of State governments to address urban needs in a fair and equitable manner. That has not changed. We cannot turn back to 19th century policies and attitudes as we approach the 21st century.

PREPARED STATEMENT OF CONSUELO M. WILLIAMS, EXECUTIVE DIRECTOR, COSMOPOLITAN CHAMBER OF COMMERCE

I am Consuelo Williams. I am a private sector member of the Illinois Council on Vocational Education. In fact, I was appointed by Governor Thompson to represent the State's job's training program (Illinois Jobs Training Coordinating Council) on the Illinois Council on Vocational Education. I am also Executive Director of the Cosmopolitan Chamber of Commerce, an organization which has addressed economic concerns of minority neighborhoods in Chicago for 53 years.

Today I am addressing that portion of the President's budget proposal which would rescind $210 million from vocational education and $195 million in 1987. First of all, the presuppositions on which these cuts appear to be based are not valid. Among the studies alluded to which suggest that vocational training is not positively linked to success in the labor market, there has been an apparent failure to study the extent to which vocational training has led to entrepreneurship.

My own mother received training in beauty culture. She owned a beauty shop for years, the income from which made the difference in my parents' ability to send me and my brother to college. It even provided a way for her to seek college credits later in life. She subsequently received a post-graduate education in vocational education, and once we were all on our own—she was able to take the cut in pay—she became a public school vocational instructor herself.

When one considers the trades taught in vocational education that lead to viable businesses and provide needed services: from vehicle maintenance, construction, and restaurant practice, to fashion design and human care services, any threat to support for vocational education in today's economy must be met with a resounding no!

There is an unrealistic response to the National Commission on Excellence in Education's recommendations that academic instruction be increased. First of all, common sense, more than important-sounding credentials, tells us that academic education has far greater impact at the primary levels. If it was missing early in one's training, it cannot be replaced by introducing to individuals who have practiced poor language habits for more than 12 years or who have not mastered basic mathematical functions.

Academics are not for every student; however, productive contributions to society can still be made by those who have mastered trades. In our technological age, things must still be fixed, much will still be built by those who are not engineers, and human services can still be provided by those whose training may not be academic.

With college education pricing itself out of the range of even the upwardly mobile, other alternatives must still exist by which Americans can earn a living. To sacrifice the education of our young in the name of deficit reduction or for any other reason is to cut off America's nose to spite its face. How can we seek alternatives to welfare while diminishing our support for the primary route of breaking welfare cycles. I sit on two councils which are now grappling with the issue of creating a viable labor pool in Illinois, while faced with major losses in Federal support. Congressman, it is not a comfortable seat, by any means.

In conclusion, it would have been far greater planning to have passed the Humphrey-Hawkins bill establishing full employment as national policy prior to passing a bill establishing a balanced budget as national policy. In that order, far more citizens would be in a position to contribute tax dollars to support government services, and far fewer citizens would be reliant on government services. To attempt to reduce the nation's deficit on the backs of programs that educate for employment is unconscionable.

Prepared Statement of Laura Spizzirri, Coordinator of Bread for the World, Illinois Third District

On behalf of Bread for the World, Illinois District 3, and all Bread for the World members nationwide, I thank this committee for the opportunity to express our concerns. It was precisely for this purpose that Bread for the World was organized twelve years ago; to use the gift of citizenship to influence public policy on behalf of hungry people. Bread for the World's first major success came in 1976 when it played a key role in bringing about the passage, in the House and Senate, of the Right to Food Resolution. Looking at that statement now would make one wonder if the present administration believes that circumstances today have changed so much that now combating hunger is no longer considered to be of primary importance in formulating and implementing U.S. policy.

In the Right to Food Resolution, it states that "the need to combat hunger shall be a fundamental point of reference in the formulation and implementation of United States policy in all areas which bear on hunger" (S.Con.Res. 138). Under this administration, however, we have already seen several rounds of substantial cuts in domestic food programs, while at the same time the evidence mounts that the number of those in need of food, the hungry in America, have been steadily increasing. Now, in the president's proposed budget for 1987, it becomes even clearer that the goal of cutting costs outweighs that of relieving hunger.

The goal of cutting expenses in these programs has become so important that the cuts go far beyond saving money through "administrative reforms," as the administration claims. In the Food Stamp Program, the single most important program for enabling hungry people to feed themselves, the '87 budget calls for a cut of $315 million. Of that, 76 percent results from direct cuts to benefits.

Among the various measures for decreasing expenses is a repeal of an entire package of benefit improvements and eligibility expansions which were signed into law by the president last December as part of the farm bill. These changes, which had been passed by wide margins in both the House and the Senate, would be repealed before they ever went into effect.

The decision of Congress in that instance was consistent with its stated objective in the Right to Food Resolution, which states that "in the United States, we should seek to improve assistance programs for all those who are in need, to ensure that all eligible recipients have the opportunity to receive a nutritionally adequate diet" (H.Con.Res. 737). The new budget, however, would cancel out Congress' efforts to improve existing programs.

Another major area in which the American people have sought to ensure nutrition for everyone is in Child Nutrition Programs. The administration proposes cutting these programs by $775 million or 18 percent in FY 1987. $721 million of these cuts would come from eliminating subsidies which allow schools to offer free lunches to needy students. The American School Food Service Association believes that 10,000 to 15,000 schools would drop out of the school lunch program and 5 to 8 million children (many of them poor) would be forced from the program. Likewise, changes in Child Care Food Programs would cause many family day care homes to drop out of the program.

Perhaps the most disturbing of the cuts in programs aimed at children is that to WIC (Special Supplemental Food Program for Women, Infants and Children). This is a program that has been proven cost effective and with little opportunity for waste or fraud. In an editorial on February 10, 1986, the Chicago Tribune referred to WIC as "a splendid idea" which "should be reauthorized." However, in spite of its success, this program has never been funded sufficiently to enable it to serve all those who are eligible. It currently serves only 3.1 million of the 10 million who are eligible. In his 1987 budget, the president would cut $14 million, or about 9 percent from WIC, thus causing 27,000 more low-income women, infants and children to be left out of the program.

The president has often talked about his belief that the private sector can and should expand its efforts for hungry and needy people. Thus one would expect him to foster and preserve those programs whose services enable many local public and private emergency food providers to expand their level of services. Research such as the Chicago Hunger Watch Report of 1983 documented the fact that public and private agencies struggled mightily to meet the doubled, tripled, and quadrupled need for their services which occurred after the first round of cuts in food programs and public aid which were made at the beginning of the present administration. It comes as a shock to learn that the president has proposed to eliminate two important programs which help the local agencies do the jobs they do.

TEFAP (Temporary Emergency Food Assistance Program) assists states and local agencies in storing and distributing surplus government commodities, such as cheese, dry milk, butter, etc. Administrative funding for this program in FY 1986 is $49.7 million. In the president's 1987 budget, it gets $0. This would mean that many state and local food providers would no longer be able to afford to acquire and distribute government commodities. Another program, FEMA (Federal Emergency Food and Shelter Program), which provides funds that allow public and private agencies to meet emergency food and shelter needs, is funded at $70 million for FY 1986. In FY 1987, the administration would eliminate this program.

Over all, the administration's dedication to combating hunger among the "truly needy" in America seems to exist more as a useful myth than as a concrete fact. The ideals endorsed by Congress in the Right to Food Resolution seem not to fit into the picture President Reagan paints of an America returning to "family values." One wonders if some families have been judged unworthy of support systems. Are some families not worth saving?

The Right to Food Resolution of 1976 speaks not only of hunger in the U.S. but of that in foreign countries also. It was recognized then, as now, that development is the key to ending the cycle of poverty and hunger in third world countries. The resolution states that "the U.S. should increase substantially its assistance for self-help development among the world's poorest people and such assistance, in order to be effective, should be coordinated with expanded efforts by international organizations, donor nations, and the recipient countries" (S. Con. Res. 138).

The ideals set forth in the resolution would seem to be compatible with the objective of self sufficiency rather than dependence on government which this administration and most Americans regard highly. Therefore one would expect vigorous support from the U.S. for a remarkable international agency that was developed by the United Nations which bypasses bureaucracies and goes right to the poorest people, lending them the small amount of money for which they have applied in order to get their businesses, co-operatives, etc. started. With the president's emphasis on private sector help, one would expect his hearty approval for an agency that is able to use every dollar it lends as leverage to raise three more dollars from public and private agencies, not here in the U.S., but in the recipient country.

Such an agency is IFAD (the International Fund for Agricultural Development). U.S. support was strong initially when IFAD was begun in the late '70's. But under this administration, the final payment of our pledge was long delayed, and the amount we contribute this year, FY 1986, is only $30 million. This is a fraction of what had been recommended by Bread for the World and other organizations, and less than some of the smallest countries will contribute. The worst news is that under the president's 1987 budget, our commitment to this effective international development agency evaporates completely: $0 funds are requested for IFAD.

The conclusion one draws from the president's proposed budget, then, is that the right of every person to food and a nutritionally adequate diet, a right once subscribed to by the Congress, is now subject to many other considerations. Tax breaks for corporations and the wealthy have gone up. Spending on military hardware for ourselves and military assistance programs for other nations continues to go up. But the level of commitment to ending hunger, at least in this administration, is falling off.

Prepared Statement of Robert Godell, President, Midway Telephone Co., Watton, MI

Good morning, Mr. Chairman and members of the Committee. My name is Robert Godell, and I am President of Midway Telephone Company, Watton, Michigan. Today, I also represent the National Telephone Cooperative Association (NTCA), a national trade association representing over 450 small telephone systems serving rural consumers in over 40 states. I appreciate the opportunity to present testimony to this committee on a subject of great importance to Midway Telephone Company and to other NTCA members—the Rural Electrification Administration (REA).

Midway serves approximately 700 customers in the rural northern part of Michigan. We have an average density of 3 subscribers per mile of telephone line, a very low density for the telephone industry as a whole, but just about average for REA borrowers. We have 5 employees.

Midway Telephone Company is an REA borrower. We are currently repaying a loan made in 1976 which helped us to change from eight-party service to single party service. The conversion was completed in 1979. We anticipate borrowing more in the future to purchase a digital switch which will enable us to offer custom-calling features, to improve our maintenance and operating efficiency and to comply with requirements to give equal access to alternative long distance carriers.

Like other NTCA members, providing modern, high-quality service to our customers at reasonable rates is our first priority. This is why we find the Administration's fiscal year 1987 budget proposals for REA so disturbing.

It is our understanding that the Administration proposes to phase-out all REA and Rural Telephone Bank (RTB) lending over the next three years, starting with a cut of 82 percent in the REA insured loans ($60 million as opposed to as much as $325 million). Loan guarantees are proposed to be eliminated starting in fiscal year 1987.

In addition, the Administration proposes to increase the interest rates on REA insured loans to the Treasury borrowing rate plus 1⅛ percent, and to sell some of the loan assets of both REA and RTB.

NTCA urges Congress to reject these proposals. We do not believe that these are in the best interests of the country, or of rural America in particular, especially at a time when the farm economy is in a recession.

There are several reasons that I think that elimination of REA and RTB is a bad idea:

The financial strains of deregulation are just beginning for exchange telephone companies. Changes in the way fixed plant costs are allocated and recovered are likely to force most exchange companies to charge higher rates to local customers. State public utility commissions are beginning to follow the lead of the Federal Communications Commission on cost allocation and recovery, which will put an even greater burden on local subscribers. Competition for the few large customers in rural areas will jeopardize revenues, also. The full impact of many of these changes will not be felt for several years to come. Attached is a summary of the regulatory factors affecting small telephone systems.

Under deregulation, local telephone companies are asked to provide more sophisticated services. For example, digital switching is needed to provide FCC-mandated equal access to alternative long distance carriers and to provide many of the new custom calling services sought by customers. Underground cables are needed to reduce maintenance and frequent outages caused by the harsh weather conditions in many rural areas. Such improvements will require considerable capital, which most small telcos can only obtain from REA or the RTB.

REA telephone borrowers are not generally able to borrow from commercial sources. REA borrowers have an average net worth of 28.5 percent, as opposed to the 42-48 percent debt-equity ratios sought by the private market. Only about one-half of all REA telephone borrowers have the 1.5 times-interest-earned ratio (TIER) required to qualify for Rural Telephone Bank loans. It is unlikely that they would qualify for a higher TIER required by commercial lenders. Furthermore, REA retains first lien on all borrower property, including property acquired later with non-REA funds. Few commercial lenders are willing to lend money for property on which they could not have first lien.

Almost 15 percent of customers in REA borrower-served areas have inadequate two-, four- and even eight-party service. These people cannot participate in the "information age" without access to up-to-date service. In addition, there are still Americans without access to telephone service. Based on the 1983 Annual Housing Survey of the Bureau of the Census (the most recent data available) an estimated 2.3 million rural households do not have access to telephone service.

The farm economy is in a recession. Due to the financial straits of farming and farm-related business, many NTCA members have reported subscriber drop-off in the past year. Many Midway customers have threatened to drop service if charges continue to escalate. This is a difficult time to ask rural consumers to shoulder another increase in their telephone rates, which would be necessary if the REA loan program was eliminated.

The proposal to increase REA insured loan interest rates would have the effect of closing down the program for the very companies that need is the most. The use of the RTB ensures that those telcos that can afford to pay higher interest rates do so. The others still require the lower-interest loans.

I was glad to note that the President's budget does not propose to increase RTB interest rates to above the Treasury borrowing rate. NTCA members are proud to have been active in the establishment of the Bank, which was conceived as a "credit ladder" to help ease the transition to higher-interest loans for rural telcos. The Administration proposal correctly regards the Bank as an important step in building the financial strength and independence of REA borrowers.

While I am no economist, it seems to be as a businessman that the sale of REA and RTB loan assets has little merit. In order to sell these loans, the government would have to discount them so deeply that the proceeds would be relatively small. In return for small proceeds, the government will be losing the future payback of the loans. This seems like a short-sighted proposal.

On behalf of NTCA and the rural consumers served by our member telephone systems, I urge the Committee to reject the Administration's proposal for REA and the RTB. Instead, we urge you to support maintaining REA and RTB lending at the Fiscal Year 1986 levels:

	Million
Insured loans	$250-350
RTB loans	185-220
Guarantees	125-145
RTB capitalization	30

NTCA members and their subscribers appreciate the past support the committee has given to REA and RTB loan programs. This support has gone a long way toward making affordable telephone service available to all rural people. This, in turn, enables the continuation of economic and social ties between rural America and the rest of the nation. We hope that the committee will again recognize the importance of this principle by supporting continuation of REA and RTB loan programs at the present level. Thank you.

Enclosure.

REGULATORY FACTORS AFFECTING SMALL TELEPHONE SYSTEMS

Access charges paid by interexchange carriers.—According to a Federal Communications Commission plan, starting in 1984, interexchange companies pay exchange carriers an access charge in return for use of local plant. This replaces the prior system of settlements. The access charges are an unproven system, and many loopholes exist. For example, WATS resellers can connect to local facilities without paying the exchange carrier an access charge, and other interexchange carriers can serve exchange customers using Extended Area Service (EAS) arrangements. These loopholes will cause exchange carriers to lose revenues they historically received from settlements.

Phase-out of settlements among the states.—Elimination of settlements for interstate toll revenues in favor of FCC-controlled access tariffs has triggered a move away from settlements for intrastate revenues controlled by state regulators. In most cases, the new system of access charges and inter-LATA settlements provides less toll revenue for local telephone companies.

Competition to provide telephone-type services to selected customers.—The FCC and state regulators are actively promoting competition in provision of telephone-type services. As a result, hitherto stable revenue streams to exchange telephone companies are jeopardized by competitors using such technologies as cable television systems, private lines and private facilities to pirate rural industries, motels, etc., previously served exclusively by rural systems.

Shift in the allocation and recovery of Non-Traffic Sensitive (NTS) plant.—In 1984, the FCC adopted a new plan under which exchange telephone companies (such as the REA borrowers) would be reimbursed by long-distance carriers for use of the NTS plant. The new plan will allocate a flat 25 percent of NTS plant to the interstate jurisdiction, abandoning the current company-by-company determination. This shift, combined with the impact of the High Cost Fund and end user charges, makes it very difficult to project future interstate long-distance revenues for REA borrowers based on historical data.

The existence of the High Cost Fund is a recognition by the Federal Communications Commission and the National Association of Regulatory Utility Commissioners that the universal telephone service objective mandated by Congress cannot be achieved in many parts of the country without assistance from the industry. The High Cost Fund, however, replaces only part of the revenues lost because of divestiture and deregulation. Continuation of the rural telephone programs is necessary to fill the gap.

PREPARED STATEMENT OF TED PEARSON, EXECUTIVE SECRETARY, ILLINOIS DISTRICT, COMMUNIST PARTY, U.S.A.

Mr. Chairman and honorable members of the Committee, I welcome this opportunity to speak to you regarding the budget proposal placed before you by President Ronald Reagan. Communists are proud to be among the majority of Americans, including a majority of the U.S. Senate and Congress, who have indicated through the polls that they are opposed to this budget. The budget as proposed is anti-people. It is especially anti-children, anti-older people, racist, and anti-women.

We completely agree with those who say that the priorities in the budget are completely wrong. We agree that the needs of our people for the basic necessities of life must come first—decent housing, health care, education, and transportation. But our agreement with these goals is not just a disagreement with Ronald Reagan. The inhuman priorities of Reagan's budget reflect the inhumanity and greed of his ultra-right cohorts, the most reactionary sector of American big business, the financial-military industrial complex that President Dwight Eisenhower warned us about in 1961.

Surely, there can be no more pressing priority than ending the horror of millions of people who are hungry and homeless, including more and more very young children, in this, the richest land on earth.

We believe that it is possible to meet the needs of our people fully, without a tax increase on the working people and the poor of the United States. Those who say they oppose tax increases, like Ronald Reagan, are liars and hypocrites. As Major Harold Washington of Chicago has said, unless this budget is defeated it will mean an increase of taxes on working class families in Chicago, through the property tax, and a cutback on services to the poorest of Chicagoans, the cruelest tax of all.

In order for Congress to enact a truly fair budget, we believe certain fundamental facts must be faced about the Reagan proposal:

First, the budget increases so-called "defense" spending while decreasing spending in almost every other area. This has nothing to do with defending the security of our country. This has only to do with defending the profits of big business.

We say it is time to end the arms race. The Soviet Union has stopped testing new weapons; the world waits for us to do the same. The Soviet Union has proposed cutting nuclear weapons by 50 percent, and President Reagan agreed at the Summit in Geneva; the world waits for the two sides to work it out.

Yet the increase in defense spending in Reagan's budget makes the Strategic Defense Initiative, or "star wars" the largest single program. It is this program that, more than anything else, blocks progress on international arms controls. It is precisely this defense program that is responsible more than anything else for the horrible economic dislocation that is gripping our nation.

It is defense and star wars that are stimulating the most massive flight of capital investment from goods producing industries to high tech fantasy boondoggles. For example, here in Chicago, LTV Steel has taken $180 million of its workers' pension funds and invested them, not in steel, but in star wars. Two weeks ago, LTV announced the imminent layoff of 775 more workers from its plant on the East Side.

It is defense and star wars that, more than any single thing, has spurred the "merger mania," as companies in basic goods producing sectors have sought high tech, super profit, star wars dream machines to cash in on Reagan's budget.

For those who have trouble with $600 toilets seats, wait till we get the bills for computer programs that won't work anywhere but in grade B science fiction movies.

Secondly, the anti-human priorities of the budget are the mainspring of corruption in our society. Most corrupt is the immorality of a whole industry based on the goal of achieving a victory in a nuclear war which threatens to end the human race. But the level of personal corruption being promoted through the arms race is unprecedented. While the FBI sends suspected murderers to mole into the first anti-corruption administration ever in the history of Chicago, the financial corporate grafters pile up hundreds of millions in personal bank accounts.

Ronald Reagan is counting on confusion and racism to get his budget passed in some form. He, and the financial-military industrial complex, are counting on Congress to play the game of divide and conquer. They will pit the elderly against the young, the white agains the Black and Latino, the men against the women, in a contest over whose ox will be gored. But in the final outcome, it will be all working people who get the shaft, and it will be the financial-military industrial giants who get all the gravy, along with the most of the meat and potatoes.

We say it is time to call a halt to this madness, this criminal betrayal of the needs of our people. It is time to pass the bill introduced by Illinois Congressman Charles Hayes, that would provide jobs or unemployment compensation to all who wish to work, and would cut the military budget. It is time to enact legislation to finance the rebuilding and public ownership and control of the steel, auto and other basic industries being gutted by the financial-military industrial complex. We need a program to rebuild our nation's crumbling railroads, highways and bridges; to provide every American with a decent home, education and health. This is the route to recovery from Reagan's budget madness.

A growning number of Americans are sick of lies, sick of hypocrisy, sick of seeing the homeless and hungry sleeping and begging on our sidewalks. We are sick of so-called leaders who make pious statements against terrorism while openly campaigning for hundreds of millions to finance terrorist attacks on sovereign peoples, including civilians, women and children.

The people of the US, we are confident, will call on Congress to repudiate the Reagan budget with its inhuman profits before everything morality. Cut the military budget. Pass the Schroeder Resolution to end nuclear testing. Fund human needs, not human destruction. We are prepared to join the majority of Americans, and Congress, to help hammer out a peoples budget in 1986.

Ronald Reagan exposes the dead end that capitalism offers the human race as its destiny. Reagan's policies demonstrate the superiority of socialism, which builds for peace and a constantly improving quality of life for all its people. We Communists have no interest apart from our country's. What is best for our country is also best for us: struggle to meet the needs of our working class for jobs, peace and equality, based on the democratic rights of all. We have no fear that in such a struggle, the US people will ultimately choose socialism and life, over capitalism and despair.

Thank you very much.

[Whereupon, at 4 p.m., the committee adjourned, until 9 a.m., Tuesday, February 11, 1986, in Lowell, MA.]

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IMPACT OF THE PRESIDENT'S 1987 BUDGET

TUESDAY, FEBRUARY 11, 1986

House of Representatives,
Committee on the Budget,
Lowell, MA.

The committee met, pursuant to notice, at 9:10 a.m., at the Lowell Hilton Atrium, 50 Warren Street, Lowell, MA, Hon. William H. Gray III (chairman of the committee) presiding.

The Chairman. The committee will come to order. Good morning. My name is William Gray, chairman of the House Budget Committee, and I am happy to bring the House Budget Committee to the city of Lowell as we continue our hearings on the 1987 budget.

Joining me here today is Congressman Chet Atkins, who invited the committee to visit Lowell, and Congressman Pat Williams, who is also a member of the Budget Committee.

Later we expect to be joined by Congressman Barney Frank, as well as Congressman Ed Markey.

Lowell and the State of Massachusetts are experiencing relative prosperity compared to many other parts of the country. This State has a healthy budget surplus, so perhaps we will hear a different perspective on the role of the Federal Government in the testimony from Governor Dukakis, Mayor Flynn, and other distinguished witnesses, than we heard yesterday in Chicago.

The Federal Government provides assistance to State and local governments in a working partnership to meet various national goals. The State of Massachusetts received $21.4 billion in Federal assistance in fiscal year 1984. This $21.4 billion included $8.7 billion for direct payments to individuals; $7.6 billion for Federal procurement programs; $2.6 billion for grants to State and local governments; $1.8 billion for Federal salaries and wages within the State; and $500 million for other programs.

Both the State of Massachusetts and the city of Lowell have used these Federal funds to meet their citizens' basic needs, develop the State and local economies and to strengthen their position so they can remain prosperous in the highly competitive international economy that now exists.

The $8.7 billion in direct payments to individuals which includes $4.6 billion for Social Security and $1.9 billion for Medicare payments, is integral to the health of the State and local economies.

The $7.6 billion in Federal procurement funds of which $7 billion is defense related is a primary contributor to the economic activity of the State of Massachusetts and its position as a world leader in high technology.

In addition, the $2.65 billion for grants to State and local governments which includes highway and mass transit aid, community and housing development assistance, elementary and secondary education aid, child nutrition aid, AFDC payments, revenue sharing, and many other programs has been a key component in the resurgency of the State economy and in particular, the city of Lowell.

We all agree that the Federal deficit and Federal expenditures must be reduced. The President's proposed fiscal year 1987 budget would reduce the deficit by applying a substantially different set of program priorities than those currently in place. This set of priorities continues the administration's plan for providing large increases in Pentagon spending while significantly reducing the amounts and kinds of aid that are provided to States, localities, and individuals.

Today's hearing gives us the opportunity to review what current Federal budget priorities have meant to the State of Massachusetts, the local cities and the citizens therein, and to compare the impact that the President's budget priorities would have. We have come to Lowell to listen and to learn and are most interested in any alternative suggestions that our distinguished witnesses may have to offer.

Let me also add that the committee will keep the recordbook open for at least 5 working days. This will allow those who are not witnesses today and would like to submit testimony to do so by submitting it to Congressman Atkins' office. It will become a permanent part of the hearing record of the House Budget Committee field hearings here in Massachusetts.

Also, this is the second year we have held field hearings, and all members of the Budget Committee have been invited to join us. Unfortunately, there are some who have decided to pull the vanishing act and quite candidly, after seeing the President's budget, I can understand why they have given new meaning to the phrase "cut and run." They have seen their President cut, and they are running away from that proposal.

Our job here today is not simply to look at the President's priorities, but also to help the American people to understand the size of the problem we face and that problem is growing each day. It is a problem that can be summarized by pointing to two statistics. In 1980 the total debt of the United States of America was $914 billion; today the total debt of America is over $2 trillion. In 1980, the deficits that we faced were $40 to $50 billion, and now in 1986 the deficits we face are over $200 billion. In 1980, we spent $147 billion for the defense of this great Nation that we all love; in 1985 we spent over $4,150 billion just on the interest payments of the doubled market debt created by fiscal policies of spend, spend, borrow, borrow.

It is our hope that we will be able to get not only the reaction of citizens of Lowell and Massachusetts to the President's priorities and his budget, but also to get their responses to a number of different solutions that may be imposed.

We are delighted to be here in this great community and in this great State and we are especially delighted to be here because from this State there is a Member who serves on the Budget Committee with distinction, and that is Congressman Chet Atkins. He invited us to come to Massachusetts and to Lowell, and so it is with great privilege and honor for all of us to have this hearing here with Congressman Atkins. I call upon him now for an opening statement.

Mr. ATKINS. Thank you, Mr. Chairman. Congressman Williams, welcome to Lowell. I am pleased that we are here this morning to talk of success, the success of Massachusetts, and of this city in particular.

Massachusetts has become an economic miracle. Unemployment is at the welcomed low of 3 percent, tens of thousands of new jobs have been created in the past few years through the leadership of our witnesses here today, Governor Dukakis, Mayor Flynn, Senator Tsongas, Mayor Kennedy, and others.

Massachusetts has fostered partnerships to develop our economy and our communities.

Cooperation between public and private institutions has driven our efforts in economic development. Right here we see a perfect example of that as we look out the window onto the urban national park that has been an engine for growth in this community, this hotel, built with the support of a UDAG grant, wouldn't have been without the leadership of Senator Tsongas.

It would have been out on 495 someplace and would have done nothing for downtown redevelopment.

Close cooperation between Federal, State, and local governments has created new public policy initiatives. Revitalization of Lowell is an example of that public-private development initiative. Activities like the Employment and Training Choices Program, which puts 1,000 welfare recipients into paying jobs with a future every month, and our new tax enforcement laws, which have generated our tremendous public sector economy in this State, are examples of those bold public policy initiatives.

However, that progress and that growth in this State is under threat today at the very moment when that Federal investment will yield its greatest returns to this State and to deficit reduction, the very programs such as the WIN Program which has made these choices possible in Massachusetts, Community Development Block Grants, the UDAG Program, which have really opened new horizons, particularly for people at the bottom of the economic ladder in this State, people who weren't unemployed because they had never worked before, people who had been locked out of the labor market who were suddenly, because of our growth and progress in this State, able to look forward to jobs so they could support their families with pride and dignity, are threatened by the tremendous cutbacks in the programs that have made the Massachusetts success story possible.

The three witness panels that will appear before this committee will examine our success and the role of the Federal Government, what it has played and should continue to play. The first panel will discuss the effect of the Federal budget in Massachusetts, and how we can translate the success of the Commonwealth's Tax Enforcement Program into the Federal level to provide revenues that are going to be necessary to cut the Federal deficit and sustain our commitment to programs.

The second panel will examine the Federal role and the Lowell success story and the third panel will investigate how the Pentagon budget affects the civilian economy.

As Chairman Gray pointed out, almost all the Federal procurement in Massachusetts is defense-related. What this panel will point out is that that defense-related procurement in this State has had a depressing effect on our high technology industries, not a stimulative effect.

Massachusetts is a case study of success that provides valuable lessons for the Federal Government. Based on the President's proposed budget, those lessons have not been learned. In the effort to cut the Federal budget deficit, I hope this hearing will provide insight into what Federal actions have proven effective or could be effective in communities across the Nation, not only in giving people hope for the future, but also in giving future generations hope for reduction in the Federal deficit, and eventually a balanced Federal budget. Thank you, Mr. Chairman.

The **Chairman**. Thank you, Congressman Atkins. Again, thank you for your invitation to us to come to Massachusetts, and to Lowell, to hold these hearings.

Congressman Williams, a committee member from Montana, is invited at this time if he would like, to have opening remarks.

Mr. **Williams**. Just to say, Mr. Chairman, that like you I am glad to join Mr. Atkins here to see what is really one of the outstanding American success stories, economically and socially. We want to know how you did it, especially out in Montana, because we are still in that Reagan recession of a few years ago.

With that, I will be quiet and see if you can tell us how you did it.

The **Chairman**. Thank you, Congressman Williams. Coming from Philadelphia, an older Northeastern city myself, I too am interested in knowing the answer to that question, how you did it.

We would like to call Mayor Bob Kennedy, mayor of the city of Lowell, who will start us with some opening remarks.

STATEMENT OF HON. BOB KENNEDY, MAYOR, CITY OF LOWELL, MA

Mr. **Kennedy**. Thank you.

Mr. **Atkins**. I might say the mayor is grappling with a budget deficit in this city, too, but with considerable fairness.

Mr. **Kennedy**. Mr. Chairman, Congressman Atkins, Congressman Williams, Governor Dukakis, Mayor Flynn, I want to extend the greetings of the city government and the 100,000 people in Lowell, and say thank you deeply for your coming to Lowell to hold this very important budget hearing. Lowell is a success story and is well known throughout the country.

Lowell has done some very unique things in terms of what the public-private sector is all about. You are going to hear a lot about that today, but all that we have to tell you is that 10 years ago we had 16-percent unemployment and today we have about a 3-percent unemployment factor. People from all over the country, Mr. Chairman, come to Lowell on a regular basis. Every few weeks we find people from various States coming to Lowell to find out why, what is Lowell doing to be so successful in terms of our success story.

I really want to say this to you, that the best example is the Federal role and its participation in how it all happened, with UDAG grants, CDBG's and what it means. Today we can honestly turn and look at that and say Lowell as a model city is effectively, through the use of that money, now contributing to lower the Federal deficit through the additional tax revenues that are generated.

Again, on behalf of the people I thank you very much for coming here and I am sure you will find this hearing a very informative and successful hearing. Thank you.

The **Chairman**. Thank you very much, Mayor Kennedy, for welcoming us to your fair city. We look forward to this hearing today, and we have already enjoyed an evening of great hospitality here in Lowell.

Now we would like to call Hon. Michael Dukakis, Governor of the Commonwealth of Massachusetts, as our first witness.

Mr. Governor, it is good to see you, a person who has been in the forefront of leadership and bringing about creative and innovative relations between State and Federal government. We welcome you.

STATEMENT OF HON. MICHAEL DUKAKIS, GOVERNOR, COMMONWEALTH OF MASSACHUSETTS

Mr. **Dukakis**. Thank you, Mr. Chairman, and thank you very much for selecting Lowell as the place to hold your hearings in the Northeast. My very special thanks to you for the kind of leadership that you have been demonstrating under very difficult circumstances as chairman of the House Budget Committee. And, of course, we are also delighted to have you with us Congressman Williams.

We gave you a Montana snowstorm to look at before you go to Tallahassee, and we are delighted to have you here.

Of course, a very special thank you to Mr. Atkins for being instrumental in bringing you here. I really regret, Mr. Chairman, that some of your Republican colleagues are not with you. I say that very much in the spirit of bipartisanship, because many of us here today remember Lowell 10 years ago. I remember campaigning here in 1974 when this city was dying and I am not sure even in our fondest dreams, we could possibly have imagined the House Budget Committee of the Congress of the United States holding hearings in something called the Lowell Hilton in the center of Lowell.

I only wish that they could be here to see what a partnership between those of you who are in Washington and those of us on Beacon Hill and the good people of this city, and those Federal resources which the new budget proposes to cut or eliminate, have done for this city. It is more than just the bricks and mortar, it is more than just the obvious beauty and restoration that has taken place here, it is the transformation of the spirit of the people of this city in a way that is very hard to describe.

I can tell you that 10 years ago there were very few people in the city of Lowell who had any confidence about the future and hope for the future and today there is a pride in this city which is tangible, which you can see and feel and touch and has everything to do with the kinds of public investments and private initiatives we have combined here.

Let me say that for us, Lowell has been the model for the most successful State urban policy in the country. We are now doing the same kinds of things in every older urban community in this State, including the city of Boston, whose mayor and a great mayor, will be here to testify before you on what those resources mean to him and his people and his neighborhoods.

But I can honestly say to you that there is not a sick city in Massachusetts today. It has everything to do with the kinds of commitments to urban America that is reflected in the work of the Congress over the past 10 years. I understand the problems of deficits as well as anybody. I faced the biggest one in the country at the State level in 1975. I faced another one potentially in 1983. But to eat our seed corn, to eliminate the very public investments that have made this kind of growth and the returns to the Federal Treasury possible, seem to me to be the worst kind of penny-wise and pound-foolish policy.

I know you will have a panel on Lowell and what Federal resources meant to it, so I don't want to take any more of your time. But I can say to you as the Governor that arrived on the scene at about the time we were dreaming, and incidentally we have 12 urban heritage parks thanks to the model of this city, it is just a great thrill to be back here and be before you, and I thank you very much for picking us and picking the city of Lowell.

What I want to concentrate on this morning, however, Mr. Chairman, is a very important part of the solution to the deficit problem at the Federal level, which I think for too long we have all ignored. I know it is something that the House Budget Committee has been focusing in on. But, I thought it might be helpful if I set the stage for the technical panel on revenue enforcement and collection, by telling you about our experience here. I want to comment on what we have done, and what we believe is the potential for the collection of billions and billions of dollars in Federal taxes that are not being paid by a minority of taxpayers.

In January 1983 this Commonwealth faced a potential deficit of $300 million. Congressman Atkins knows well what I am talking about because he was chairman of the Senate Ways and Means Committee and was wrestling and grappling with that problem, as was I when I returned to the statehouse. The usual solutions, budget cutbacks or increased taxes or both, were the same then for us as they are now for the Federal Government. But rather than cut programs or raise taxes, we proposed a different solution.

We knew that $640 million annually, 12 percent of our State's existing revenue base was going uncollected each year. So while the vast majority of our citizens were faithfully complying with tax laws and paying their taxes, a significant minority was not.

So we decided to balance our budget, not with tax increases or drastic cuts in important public services and public investments, but through a Revenue Enforcement and Protection Program, or REAP, as it came to be called. REAP was a combination of tough new laws, increased resources and improved and more responsive service for honest taxpayers.

Two years later, I can report to you record increases in revenue in this State, almost 29 percent in the past 2 fiscal years.

Now, some of that increase unquestionably has been produced by a strong State economy, but there is a subtantial portion of that revenue that economic growth alone could not explain. That portion, over $550 million, can only have come from increased voluntary compliance with our tax laws, voluntary compliance that is the direct result of a more efficient and sophisticated revenue department, tougher laws, a well-publicized amnesty program, and visible and vigorous tax enforcement.

Unfortunately, as all of you know, at the Federal level the tax enforcement story has been very different with predictably different results. The IRS has been the victim of the administration's penny-wise and pound-foolish policies, it is auditing 50 percent fewer returns than it was 10 years ago, and its well-publicized computer and morale problems have made it unable to perform some of the basic functions for honest taxpayers.

In the past 10 years the number of staff at the IRS has remained relatively constant while the agency workload increased 45 percent.

Just last week we learned that 1 month into this tax season the IRS has frozen hiring and ordered cost cutting in order to avert a $100 million deficit, this at a time when you are facing a record Federal deficit.

Last year 2 million citizens, as you know, had to wait months to get their refunds and for every taxpayer that was able to reach the IRS by phone to ask a question or receive assistance, another two couldn't get through.

Most troubling of all is that our voluntary compliance with our Federal tax laws is now at an alltime low, 81.6 percent, down from 94 percent in 1965.

Tax evasion in this country now exceeds $100 billion annually. If the tough and aggressive initiatives that we have implemented here in Massachusetts were applied by the IRS to this $100 billion problem, I am confident that the success we have achieved would become a national success.

We estimate that a Federal amnesty program could net upwards of $8 billion. And, even allowing for differences in tax structure between the Massachusetts and Federal Government, a Federal revenue enforcement and protection program could improve voluntary compliance with our Federal tax laws by at least 4 to 5 percent meaning an additional $20 to $25 billion in annual Federal tax collections, $20 to $25 billion toward reducing the Federal deficit that would not have to come from spending cuts or tax increases.

I might add, Mr. Chairman, that that is a very conservative figure. If we could take tax compliance from its present 81 percent and move it back to the 94 percent we had in 1965, you are talking about $65 billion in additional revenue annually, not $20 to $25 billion.

Now, Massachusetts is not alone in setting the example for a new approach to tax administration; 18 States have offered amnesty programs and almost 500,000 citizens have paid more than $650 million in back taxes.

Omnibus legislation has been passed in New York, Alabama, and Illinois to reform and strengthen enforcement of the tax laws with innovative compliance programs. I understand, although Commissioner Jackson may have some up-to-date information on this, that the New York amnesty just completed will have raised over $300 billion in 3 months, Mr. Chairman, at least $300 million in 3 months.

Furthermore, I believe it is grossly unfair to the overwhelming majority of citizens in this country who pay their taxes to permit a relatively small minority to escape their obligations under the Tax Code.

If we could get compliance back to where it was just 30 years ago, Mr. Chairman, the additional revenue would make Gramm-Rudman totally unnecessary.

Federal tax cutbacks obviously present serious consequences for our States, citizens, and cities. Before accepting cuts in important domestic programs, in important investments in the future of this country and before accepting increases in taxes, we should insist that viable alternatives, particularly those where States have set a meaningful precedent, that those alternatives are pursued vigorously and aggressively.

What brought success to this program was tough laws, visible enforcement, changed public attitudes, and political resolve, and leadership. We have proven it can work at the State level, not just in Massachusetts but in Illinois, which has a Republican Governor, as you know, Mr. Chairman, and in California which has the same, as well as in New York, and Alabama. This is very much a nonpartisan approach to deficit reduction. Mr. Chairman, I have no doubt that it can work at the Federal level.

In short, we cannot only avoid the tragedy of unnecessary cutbacks, but we can also make our tax system a fairer one, one which collects not only from those who choose to pay but from all of those who have the responsibility and obligation to pay.

I would be happy to answer any questions you may have, Mr. Chairman. On the other hand, we have a very, very distinguished panel of tax experts who will be before you, and they will be happy to go into this in greater detail.

The CHAIRMAN. Governor Dukakis, let me thank you for your testimony and for taking time from your busy schedule to come and offer some solutions to the deficit problem.

We frequently hear people talking about, well, don't do this and don't do that. I am delighted to hear you offer a potential solution.

We, the members of the House Budget Committee, have also been concerned about this same problem. Last year in our budget, we did increase moneys for more staff collection purposes because we agree with you that you certainly cannot maintain a revenue base if you decrease the staff that is involved in the collection.

Therefore, the budget that was produced last year on the House side did call for increased money for additional collection.

Apparently the President must have heard you somewhere because in his 1987 budget, he also provides for an increase of 2,500 additional staff slots for collection purposes.

I want to thank you. We will investigate this idea further, and certainly you and this State have done a magnificent job. We remember your deficit problems, yet you have been able to deal with them and at the same time maintain a very strong level of services and a doorway of opportunity for all your citizens. This allowed a real partnership to develop between the private sector and Government.

At this time, the Chair will yield to the gentleman from Massachusetts, Mr. Atkins.

Mr. **Atkins**. Thank you, Mr. Chairman.

I just want to thank you, Governor, and suggest that I think we have, with the concept of tax enforcement, something that has worked.

As a matter of fact, one of the things that has been troubling to me is to listen to the people in the tax department in Massachusetts talk about the numerous anonymous letters and phone calls they got from people who did not participate in the State amnesty program simply because they were afraid of Federal jeopardy.

The thing we have to realize is that there are literally thousands and thousands of people out there who have never filed tax returns who would like to join the ranks of law-abiding and honest citizens who are willing to pay up what they owe in the past, are worried about criminal penalties if given a chance to step forward. These are people who will continue to be taxpayers through the rest of their lives. And I think we have seen in a variety of very different States a situation where this can work, and when we are talking about not some pie-in-the-sky scheme, but clearly a proven alternative to some of the deficit reductions methods that others have talked about.

Mr. **Dukakis**. You were there at its inception, Mr. Atkins, and know how we did it.

Mr. Chairman, you have a resident expert on how to put one of these programs together because without Congressman Atkins' very strong support and resources, by the way, which we put into this, it never would have happened. As he will tell you, from the beginning in 1983, we estimated the amount of revenue we could collect, put it in the budget—as it turned out, we exceeded it—but it is the way we did it. We made it a goal. Everybody knew that our futures were on the line to some extent and we were able to do it.

Mr. Jackson is here and he has the latest numbers. But when he testifies, I hope he will tell you how many more taxpayers we have in the State today than we did 3 years ago. That is not because of population growth, I can assure you. Our population has grown only very slightly.

The **Chairman**. The gentleman from Montana, Mr. Williams.

Mr. **Williams**. Governor, thanks a lot for being here. Your statement is very helpful. We look forward to your continued leadership here in Massachusetts and in the Nation as well.

Mr. **Dukakis**. Thank you, very much. Thank you, Mr. Chairman.

The **Chairman**. Thank you, Governor.

At this time, the Chair calls to the witness table Hon. Raymond Flynn, mayor of the city of Boston.

Mr. **Flynn**. Thank you, Mr. Chairman.

The **Chairman**. Mr. Mayor, let me welcome you to the field hearings of the House Budget Committee. It is always a pleasure to see you and to have the opportunity to chat with and hear the thoughts of one of America's outstanding mayors.

Certainly we in the Nation's Capital admire the kind of work that is going on in the city of Boston. However, there is only one objection that I have and that is that I think you really ought to do something about those Celtics. They beat my 76'ers too frequently.

Other than that, it is always a pleasure, Mayor Flynn, to welcome you and it is good to have you.

Of course, feel free to summarize your testimony, and of course your full and complete written testimony will be submitted for the record.

STATEMENT OF HON. RAYMOND L. FLYNN, MAYOR, CITY OF BOSTON

Mr. FLYNN. Thank you very much, Mr. Chairman, Congressman Williams, and my former colleague in the State legislature, Chet Atkins. I want to thank you for coming to Massachusetts to give us an opportunity to give some observations about what we perceive as happening in Washington.

Last night, for example, we had a meeting in Boston in historic Faneuil Hall, the building where the American Revolution actually began, and we had over 1,000 people there; an additional 1,000 people who were outside the building had to be escorted to city hall for setting up monitors so they also could participate in a hearing regarding Federal cuts.

I am sure that if we really put our efforts to it that we could get well over 5,000 or 10,000 people to attend a hearing to protest what is actually going on in Washington.

I think there is a point here that needs to be made and that is a strong point as it relates to the cities of America, particularly the city of Boston, and there are in fact a number of people who are here who wanted to be part of this hearing today. They represent the elderly, they represent day care providers, nutrition programs, and so forth.

And the point of view that I think is not receiving the attention it should be receiving is the fact that in large respect the success of many States and the success of our country has in fact largely depended on the success of many of the cities. Because that is in fact where the jobs are, that is where the economy is developed, and we in Boston and Massachusetts have in fact been very fortunate because we have a terrific partnership with the city government, the people of Boston, and its government. So we are very, very proud of that.

But what we are concerned here about is, of course, a walking away by the Federal Government toward the cities of this country. When you look at programs that we have implemented over the course of the years in Boston and other cities, it has given people who have been left behind an opportunity to participate in that growth and that development.

In the city of Boston alone, for example, 75 percent of all the people who work in Boston who earn more than $15,000 do not live in the city of Boston. Boston is probably about 12 percent of the

State's entire population, but it is over 21 percent of the State's economy.

So you see that a tremendous amount of revenue and opportunity is generated. It is the financial center. It is the center for culture, for education. Congressman Williams, you would want to know that outside the Nation's Capital, Boston has the highest percentage of tax-exempt property.

There are here the best learning institutions in the world, medical institutions. You just saw the celebrated case of Mrs. Bonner coming to Boston for medical treatment. It happens every single day. We are proud of that. We are very, very proud of that distinction and that reputation.

Yet, at the same time, we have to understand that we are a growing city, financially and in population. What is that population? That population is two categories: one, a rather affluent group of people coming into Boston because of the Boston colleges, and Harvard's, and BU's, and so on, and the strong economy, and educational, and cultural environment as well. But yet, at the same time, a tremendous number of poor people coming into our cities as well.

I would say that because of what is happening in Washington you are creating a two-tiered society in the cities. And I have spoken to a number of my colleagues; I am very active in the U.S. Conference of Mayors, I have spoken to Ed Koch, Harold Washington, Wilson Goode. I will be attending a Conference on Homelessness to be held in the city of Philadelphia, where I will give the keynote address.

Only last week, on behalf of the mayors, I presented to the U.S. Congress a document, a survey of 25 major American cities in America. What it basically stated was that the issue of homelessness and hunger is on the increase in our country to dramatic levels.

Yet, if we look at this budget here, the budget of 1987, submitted to your committee and to the Congress of the United States by the President, in there, there is not 5 cents to deal with the issue of homelessness. Under the FEMA Program 2 years ago, Boston received $236,000; last year, $208,000. Under this particular proposal, there is nothing.

Look at the community development block grant chart I have up here. Boston has already received tremendous reductions in community development block grant money over the course of the past 5 years. But again, if these deferrals, and Gramm-Rudman, and the 10-percent cut that we have experienced, if it goes through, it will mean a 30-percent cut in CDBG.

What is that money used for? It is used to renovate abandoned housing, to build new housing.

By the way, because of the strong economy here, it is hurting poor people. Clearly it is hurting poor people. It puts tremendous pressures on the housing stock.

So we have to build that partnership so Federal money can work with the Boston housing partnership, our business community, so we can rehabilitate abandoned housing, we can expand supply of affordable housing, provide child care.

We don't have a major problem—I get a little disillusioned when I hear unemployment statistics. We don't have an unemployment problem, per se, but we have a tremendous underemployment problem. What we need to do is we have to give people training opportunities so that they can move up the ladder of economic opportunity so they are not stalemated in one particular low-level entry position.

We have moved from a manufacturing to service-based economy. That means that people could go into jobs such as hotels but really not much of an opportunity to climb that ladder.

So what we are trying to do through our training programs is to train these people so that they can move up. And also the child care programs, so people, women who are single parents, can in fact get off the welfare, as the Governor's program is so successfully doing, and giving them an opportunity to get trained and to become productive citizens.

In Boston, 5 years ago, we received $50.3 million in Federal Job Training Program funds. Under this budget, it is down to less than $5 million. What that will do is it will have a tremendous impact on allowing left-out people to participate in the economy.

So what I say, members of this committee, we are delighted that you are here. We are delighted that people from the service community of Boston could also be here. We are building partnerships with the Governor, with the State government, with the business community. Bu you know, if you like to play poker, you know you got to bring something to the table. You just can't sit down and have a poker game with people and not have any money in your pockets. If you want to play, you have to pay.

If Boston wants to do something for its citizens, and if Chicago wants to do something for its citizens, it has to have some money in its pocket. If the Federal budget goes through as it is submitted by the President of the United States, we will be asking to be partners at a game we don't have any money in.

Now, on a city level and on a State level, we have really done everything we possibly can and continually will do it. Today we will announce that the deficit for Boston is the lowest it has been since 1979, $12.9 million; 3 years ago it was $40 million. We are making those kinds of tough decisions.

We also have to understand that we are a city that has a number of needy people and we depend on the Congress of the United States, and I think the Governor is right.

In closing, I think it is disappointing that the Republican members of this committee are not here. I am not being critical about that because of the fact that I think if there is resolution to this problem, and I think I read it in the Wall Street Journal that you had a comment in there about it, Congressman, if we are to be successful, it is going to be because of Republican and Democratic Members of the legislative branch of our Congress are going to be able to work out this issue.

To boycott this hearing or any other hearings, I think is counterproductive. I think it is very shortsighted.

I hope that in a spirit of bipartisanship you can put this country on the right road, the right road--decent jobs for people, educating our kids, making productive breadwinners, and giving cities the tools necessary to keep them and allow them to grow strong.

Thank you.

[The prepared statement of Mr. Flynn follows:]

PREPARED STATEMENT OF MAYOR RAYMOND L. FLYNN

Mr. Chairman, I want to begin by thanking you for bringing this hearing to Lowell and giving us the opportunity to testify this morning. I also want to acknowledge my former colleague, Representative Atkins, and to thank him for hosting us in his district.

Mr. Chairman, the issues before us are grave and immediate for the poor and working families of America's cities—for the people of Lowell, of Boston, and every other urban area. It is apparent that these families are being asked to pay for the deficit. We are using their neighborhood development funds, their health care funds, and their job training funds to pay for a deficit they did not create.

Last night, in Faneuil Hall in Boston, over 1,000 people gathered to send a simple message: bring down the deficit, not our neighborhoods. The call for economic justice was sounded in the hall where it all began. We have built a firm foundation of cooperation, they said, and we will not stand by while the Federal Government tears it down.

In Boston, we have used programs such as the community development block grant to leverage millions of dollars in investments by the private sector.

Through these investments we have created networks of cooperation and collaboration between Government and the people that it serves. This cooperation has enabled us to:

Shelter the homeless; feed the low-income elderly;

Train the unskilled breadwinners; educate the illiterate;

And create opportunity where none had existed before.

Yet the President is attempting to defer $500 million in CDBG spending until the next fiscal year. That action, combined with the 10 percent cut enacted by the Congress and the 4.3 percent Gramm-Rudman cut, would mean a 30 percent cut for cities across the country. In Boston, the cut would mean a $6.8 million loss. That would mean 12,249 children who would not receive affordable daycare or 489 units of abandoned housing that would remain vacant and uninhabitable.

I fail to see the logic of destroying a program that works so well.

And I ask the committee to consider programs such as the Job Training Partnership Act, which has worked in Boston. Why is Washington working so hard to cut it?

You know, Mr. Chairman, Boston is the economic engine that drives the big, express train that is the Massachusetts economy. Yet, we find too many working families in Boston who are still struggling to get their incomes above the poverty line. With the cooperation of the private sector, we have been working to prepare these breadwinners for jobs with a future, for jobs in the Boston economy.

In Boston, job training is an investment that pays big dividends.

It is on behalf of these programs and the people they serve that I appeal for a balanced strategy to achieve a balanced budget.

A balanced plan must include a number of elements. Chief among them are a fair and equitable plan for spending reduction and some measures to bring in revenue. When we consider revenue sources, we must take a look at measures to collect the billions of dollars in delinquent Federal taxes. It is clear that the entire $100 billion in outstanding taxes would not be collectible. But a fair estimate indicates that as much as $20 billion could be collected under an aggressive program.

This $20 billion would give the Government the funds required to eliminate the budget deficit, without eliminating the domestic budget.

The Congress has a tremendous responsibility in these uncertain times. Our Nation is slowly polarizing into a two-tiered society. Opportunity is slowly slipping out the grasp of growing numbers of poor families. The question becomes whether we will have the vision and the dedication to bridge this widening gap. The people who are here this morning, and thousands more whom they represent, are waiting for the answers.

The CHAIRMAN. Thank you very much, Mr. Mayor. I have just a couple of questions, Mayor Flynn. During the President's State of the Union Address to the Nation, he talked a great deal about the family and, family values which we all admire and support. I think he used the word "family" about 16 times or more.

When you look at this budget and how the budget impacts upon Boston and the families in Boston, would you say it is profamily or antifamily?

Mr. FLYNN. The whole policy clearly, Congressman, is an antifamily document because the cuts that this budget talks about, it is about $33 billion in domestic cuts, and as a matter of fact, I think for the past 4 years there has been an antifamily attitude reflected in these budget programs. I will tell you why.

For the past 4 years, domestic cuts—and I hear this, I hear all the people concerned about, well, I suppose Mayor Flynn is going down to Lowell tomorrow and he is going to start complaining, he is going to be whining about what is going on in America's cities and in Boston. We hear that all the time.

You get sick and tired of hearing that because it is not the cities of America that have led to this deficit. Think about it. You know as well as anybody. What caused the deficits was the President's giveaway proposal of 1981, continued increases in military appropriations and the interest we are paying on that debt.

It was not because of domestic spending. As a matter of fact, answering your question directly, between $300 and $325 billion has in fact been cut from the domestic budget to aid cities to revitalize their people—not just their infrastructure, but their people, to make them productive people.

So, yes, in fact the policy is antifamily because I think that training people to become productive breadwinners, educating our children, I think those are real defense issues, if you will. Those are the real defense.

We obviously have to have a strong military defense of our country, but we also have to have a strong country to defend.

The CHAIRMAN. Mr. Mayor, you mentioned something which concerns me. Last week when the President gave the State of the Union Address, he had four young people who came with him. One of them was from my city, a young man who courageously and compassionately became concerned about people who were sleeping on grates, and, people who were hungry. He literally went out and fed the hungry, clothed the naked, and gave water to the thirsty. The President recognized that young man for his recognizing the need of the homeless.

However, when I look at his budget that was submitted the next day, there is elimination of all funding for the three primary programs that provide help for the homeless. You have mentioned that in your testimony today.

Will the city of Boston be able to acquire those funds elsewhere to provide help for the homeless if that program is eliminated as the President recommends?

Mr. FLYNN. There are tremendous programs that people are participating in. Last night we awarded checks on behalf of WEEI, a radio station in Boston, to assist homeless people.

We are doing more voluntary, creative kind of things. That really is the rightful role of the Government in large regard.

The Government can't just walk away and ask us to develop all kinds of partnerships with business communities and nonprofit organizations. What the heck do we need a Federal Government for anyway if they are going to tell us to go back and do—we may as well be entities all by ourselves if that is what this new Federalism is all about.

No, we can't do it by ourselves. This country is supposed to stand for something and it is supposed to stand for helping people who are not able to help themselves. If this country decides that people are going to make it on their own, then what they are basically saying is that a large segment of American society are not going to participate in the American Dream.

I think that the American Dream that we hear about and that we have been talking about for so long a period of time is in fact going to turn into the American Nightmare if we don't do something about it rather quickly.

The CHAIRMAN. One last question, Mr. Mayor. I think you are well aware of the problem. You certainly can articulate its impact upon the city of Boston.

One of the things we have to face is solutions. The Governor has mentioned one particular solution. The President has his solution to our economic woes as put forth in his budget.

In light of the President's economic prescription or solution where he calls for the elimination of assisted housing, the elimination of urban mass transit, the elimination of UDAG's that built every hotel we are in today and played a vital role in the rejuvenation of this particular community, from your perspective as a mayor, would you prefer the President's prescription or an across-the-board freeze? In this alternative the local government would get basically in 1987 the same amounts of money they got in 1986—we are both aware that that would be a decrease because there would be nothing in it for inflation—then perhaps selected programs, prioritized, would be further reduced. Would you prefer that approach or do you have any other solution?

Mr. FLYNN. I think it should be a balanced across-the-board solution.

No. 1, I think we are all kind of kidding ourselves in this country if we think we can deal with a $210 billion deficit by cutting out domestic programs. We are sentencing this country to Hoover politics if that is what is being suggested.

I think we need new revenues for this country and I think the Congress, with the support of the mayors and the Governors of this country, ought to come to an understanding and say it clearly that new revenues are necessary. No. 1, that is No. 1.

No. 2, there has to be a shift in priorities. You can't have those exorbitant increases in military appropriations that have been occurring. I don't know what the figure is. I hear, I saw your figure that you think it may be 10 or 11 percent increase in military appropriations?

The CHAIRMAN. It is a 12-percent increase in the President's budget for Pentagon spending, a 12-percent increase, $34 billion.

Mr. FLYNN. That is absolutely incredible. A $34 billion increase in military at the same time the domestic program is being cut that much. If that makes sense, then I will eat these microphones.

The other point is what the Governor is talking about in terms of creative solutions to collect taxes. It has been successful in Massachusetts. We have had success with it in the city of Boston as well. So it is not one particular thing.

Reduce the military; new revenues; freeze across the board on domestic programs so programs like this, by the way, that for—we have people from the community school program. What is a community school program? It is a program that works after school that educates people for high school education, high school equivalency diplomas, English as a second language, gives them an opportunity that they can work in the daytime, participate in programs in the evening. Every $1 the city of Boston puts in that program, every dollar the city puts into it, they go out and raise $3.50 on their own.

So you talk about partnerships; the President ought to come to Boston and see some of the partnerships. They are making filet mignon with baloney skins in terms of what the partnerships they are developing are doing.

So, an across-the-board program, I would say, Mr. Chairman.

The **CHAIRMAN**. Thank you, Mr. Mayor.

I yield to the gentleman from Massachusetts, Congressman Atkins.

Mr. **ATKINS**. Mr. Mayor, could you tell us what your estimates are of the number of people living in poverty in the city of Boston, below the Federal poverty line?

Mr. **FLYNN**. Below the Federal poverty line, 21 percent of families.

Mr. **ATKINS**. Do your budget people have an estimate of what that percent might be if you are forced to live with the budget that the President has proposed?

Mr. **FLYNN**. Across the board in fiscal year 1987, no, except that what we have done is by categories. I could provide that information for you.

If you were to, for example, to apply 30 percent reduction in our CDBG money, which is what is predicted here, 30 percent across the board, we would in fact not only provide 30 percent reduction, obviously, in programs; for some programs, it would mean elimination of other programs because small programs, that of training Spanish people, for example, to English as a second language, so that they could work and apply for more gainful employment opportunities, that would mean that that program would be eliminated. They do not have that kind of flexibility and the staff to sustain a 30 percent reduction.

So we are saying probably between 40 and 50 percent of our services that are delivered in Boston to disadvantaged, to needy, to elderly, to those neighborhood revitalization programs, commercial development, between probably 40 and 50 percent of our services would be reduced because of 30 percent reductions in community development block grant moneys, because some of the programs would not just be able to sustain.

Mr. **ATKINS**. Thank you.

The **CHAIRMAN**. The Chair recognizes the gentleman from Montana, Mr. Williams.

Mr. **WILLIAMS**. Thank you, Mr. Chairman.

Mayor Flynn, it is good to have you with us today.

Mr. **FLYNN**. Thank you.

Mr. **Williams**. As you know, I represent a part of Montana in the Congress, in fact, half of Montana in Congress, and as we can learn from you, you can learn from us. Part of the genius of the American system is that because of our breadth and diversity, we can all learn things from each other.

It seems to me now, however, that America really ought to pause and look your way and the Governor's way, look toward the people of this State, because we have something to learn from you, I suspect. Boston, Lowell, and Massachusetts have done a good job demonstrating lately that public generosity does not necessarily mean inefficient bureaucracy.

It seems to me that you are able to demonstrate to America in a major, clear, logical way that caring about one's neighbors does not necessarily mean deficit spending. And Massachusetts knows today, as well as I think you have throughout your history, that greed is not only bad morals, it is bad economics.

Mr. **Flynn**. Yes.

Mr. **Williams**. There is a terrible political slogan that is used by people in high places in Washington, and I want to compare that slogan to one that we used to use 20 years or a quarter century ago. The slogan today is one based on greed, and it is a question and the question is, "Are you personally better off than you were 4 years ago?"

Here is what we have to learn from Massachusetts. One of your favorite sons, a quarter of a century ago, didn't ask Americans if they were better off. He said, "Ask not what your country can do for you, ask what you can do for your country."

Those two political slogans are exactly opposite. It seems to me America ought to catch its breath, look to the skies and look to Massachusetts, because I suspect that in these difficult times you have a very important lesson to teach us. It is because of leaders like the Governor and yourself that you have done so well in these recent years.

I hope America will look this way.

Mr. **Flynn**. I am sure the Governor has no comment after that.

Mr. **Dukakis**. Amen.

Mr. **Flynn**. Thank you.

The **Chairman**. Let me thank you, Mr. Mayor, for your testimony. And let me also concur with my colleague from Montana. He is absolutely right in terms of what the searching question is and how we have lost sight of it in 25 years. Maybe what we need to do is remember what a son of Massachusetts said a long time ago.

We want to thank you for the role models that you are playing and certainly for the advice that you have shared with us on potential ways to solve the problem and sort out the priorities.

Mr. **Flynn**. Mr. Chairman, let me say this sincerely, you are one of our heroes and we are depending on you and we are depending on this committee. Thank you.

The **Chairman**. The Chair calls to the witness table Ira Jackson, commissioner of revenue, Commonwealth of Massachusetts. Mr. Jackson.

STATEMENT OF IRA JACKSON, COMMISSIONER OF REVENUE, COMMONWEALTH OF MASSACHUSETTS

Mr. **Jackson**. Thank you, Mr. Chairman.

The **Chairman**. Thank you for appearing.

We understand you have staff persons with you. If you would have them come and sit with you.

Mr. **Jackson**. John Vrana, director of California State Amnesty, and Prof. Paul McDaniel of the Boston College Law School.

The **Chairman**. They are coming now, and as they come, let me welcome you, Commissioner Jackson, as well as your colleagues. We appreciate the opportunity to ascertain your views.

Of course, we will submit for the record your total testimony and we look forward to hearing your views on the deficit problem, the President's solutions as well as potential other scenarios to deal with the deficits at the Federal level. Please proceed.

Mr. **Jackson**. Thank you, Mr. Chairman. We will all attempt to be exceedingly brief.

It is an honor to be before you and especially a personal pleasure for me to testify before Congressman Atkins who listened to our case here at the State level 3 years ago when he was chairman of our senate ways and means committee. He listened and asked the right questions and acted decisively to back our approach with money and manpower.

I look forward to his exercising leadership on tax law enforcement once again, this time at the national level.

Tax amnesty worked in Massachusetts and we collected over $85 million. If comparable success were achieved at the Federal level, $8 billion could be collected from this program alone.

In Massachusetts some 52,000 individuals and businesses came forward to clean their consciences and pay the State under amnesty. If that experience were replicated at the Federal level, you might expect more than 3 million taxpayers to take advantage of a last chance to come in, settle up, and never have to look back.

Mr. Chairman, amnesty in Massachusetts was part of a more comprehensive approach to tax law enforcement, referred to popularly as our revenue enforcement protection program. It included tougher laws, and more vigorous enforcement, improved customer services for the vast majority of our taxpayers who are honest, and it changed public attitudes. It ushered in in Massachusetts a whole new era of tax law enforcement.

Clearly, the ground rules changed, with the legal penalties which got more severe, and as the crackdown was beginning, amnesty was offered as a transition to a new era of tougher enforcement. Amnesty gave people a one-time opportunity to come in and settle up without fear of penalties, prosecution, or further recriminations.

Even so, Mr. Chairman, we didn't anticipate the incredible response to our amnesty offer. Applicants poured in from virtually every State and 12 foreign countries and people from all walks of life, professions and income categories.

On the last day of amnesty, over 30,000 people contacted us, over 10,000 lining up outside our Boston headquarters alone to file forms and pay bills.

Our crackdown on tax evasion, Mr. Chairman, resumed with fresh force the minute the amnesty was over. Over a 2-year period, audit assessments were increased 92 percent, seizure activity was up 317 percent, referrals for criminal prosecution up 59 percent in fiscal year 1984 alone.

Along with amnesty, and maybe made much more public because of another strategy to combat tax evasion, was a simple commitment to treat honest taxpayers as though they were customers instead of victims of an uncaring and unaccountable State bureaucracy. That commitment to reward and reinforce good behavior was manifested in new, simplified taxpayer filing, increased free taxpayer assistance and the commitment of record-fast refund services.

I have mentioned the $85 million we collected from the amnesty program, but what is more striking is our overall revenue collection since the amnesty program. We experienced record revenue increases in both fiscal years 1984 and 1985 as the Governor mentioned.

Our booming State economy is clearly one key to that genuinely unexpected increase but revenue growth of over 27 percent in 2 years is well above any growth in inflation, GNP, or personal income. As one sage of the Massachusetts revenue scene put it succinctly, "We are REAPing out all over."

The key point, Mr. Chairman, is that we seem to be stemming the trend and turning the tide of tax evasion in Massachusetts. We have attempted to isolate what the economy can explain, but even above and beyond that, we see changed public behavior. Whether out of fear, guilt, attitude, or prosperity, taxpayers in Massachusetts have been coming forth with record amounts of good old-fashioned honesty, accounting for more than one-half billion dollars in revenue increase over the last 2 years.

Federal experience analogous to Massachusetts and Alabama and California and New York could generate $20 to $25 billion in additional revenue annually.

In making comparisons I realize some people have argued that our program succeeded only because people didn't previously take us seriously. Certainly not as seriously as the IRS. Perhaps. The IRS is a solid organization with an excellent track record over the years.

No one takes it lightly. But no matter what the validity of the comparison, it misses the point dramatically, Mr. Chairman, because for whatever reason, the IRS today has $100 billion tax gap and another $30 billion in accounts receivable. We are losing the national battle with the tax evader, and voluntary compliance is plummeting.

The IRS is auditing fewer individuals and corporations, servicing fewer taxpayers and losing its best employees. Its own study reveals that one in five Americans admits to cheating, one in three condones it, and taxpayer attitudes and behavior are getting worse, not better.

Why not go after these problems with every proven and every possible weapon?

We don't claim any franchise on wisdom here in Massachusetts, Mr. Chairman. We are just one case study. We have looked at what has worked elsewhere and sought to innovate and improve upon it. In executing our amnesty and REAP Program, we made our share of mistakes, but we have learned from them, California, Illinois, Alabama, New York, and 14 other States have benefited from our experience as well.

We realize the difficulty of applying our State experiences to an agency like the IRS with a different history, so many times our size, spread over the entire Nation. All State tax administrators are indebted to the IRS for the leadership and assistance it has provided over the years.

But you and your colleagues, Mr. Chairman, are presented with a rare opportunity to link tax reform to improving voluntary compliance. With new and fairer tax laws, public attitudes can be changed, so what better time to offer amnesty. With a change in the ground rules, taxpayers will get a deserved opportunity to come in, clear up past delinquencies, and welcome tax reform with a clean slate and clear conscience.

I speak not only as commissioner of revenue in Massachusetts, Mr. Chairman, but also on behalf of my 49 brother and sister commissioners who last year unanimously endorsed a resolution incorporating the proposals and conclusions Governor Dukakis has presented today.

The skeptics, Mr. Chairman, will always be cautious and defenders of the status quo will always summon forth bureaucratic reasons for going slow or not moving at all. They said at the outset that we in Massachusetts would fail. When we succeeded with amnesty they predicted a backlash and long-term declines in revenues. We have proven them wrong, Mr. Chairman, and so can the Congress of the United States.

Should you succeed, the consequences will be profound just as they have been here in Massachusetts. You can look forward to sizable amounts of new revenue without tax rate increases, you can avoid painful budget cuts, you can help the States to gain a lasting revenue windfall of their own as taxpayer honesty at the Federal level will translate into greater taxpayer honesty in State tax filing as well, and Mr. Chairman, you will have earned the respect and gratitude of the vast majority of American taxpayers who I believe are tired of subsidizing tax evading, high-rolling individuals, and freewheeling corporations, who are not paying their fair share.

The CHAIRMAN. Thank you very much, Commissioner Jackson.

Perhaps you would like to call upon each of your colleagues if they would like to comment at this time.

Mr. JACKSON. John Vranna, director of the amnesty program in California.

The CHAIRMAN. Before you begin, please, I know we are in an open area here and as such, there is always going to be a little feedback from those coming and going. We would like to ask those who are out in the foyers if they would retire to some area other than the foyer for conversation. It would be deeply appreciated.

To those who are standing in the foyer as well as on the balcony, there are now seats available here in the area for spectators. If you would like to come and observe the proceedings, feel free to do so. We urge you, those in the foyer, to please keep your voices down so we can hear this testimony.

Let us begin again.

STATEMENT OF JOHN VRANNA, DIRECTOR, CALIFORNIA STATE AMNESTY

Mr. **Vranna**. I am John Vranna, director of the California amnesty program. I am pleased to be here today, representing California, to describe California's recently completed tax amnesty program.

The initial impetus for California's tax amnesty program emerged out of the growing perception among tax administrators and others that the State's tax gap was unacceptably large and getting larger. Although definitive figures are understandably hard to come by, it is presently estimated that the difference between what is owed to the State of California and what is actually paid represents a $2 billion annual tax loss.

Closing this tax gap or at least attempting to became the primary reason for the tax amnesty program in California, and the companion measure designed to make compliance and enforcement more creditable and effective.

The successful implementation of California's amnesty program was therefore grounded in what was sound legislation and strong internal political support for a major effort to improve and encourage taxpayer compliance. This legislation drew heavily on the experience of other States, most prominently the Commonwealth of Massachusetts, but the bill was tailored to the specific requirements of California's existing tax collection and enforcement systems, which we feel by any standards are already among the most sophisticated and comprehensive in the country.

We sought, in effect, to seal the cracks that had been allowing tax cheats to avoid their obligations with relative impunity.

By most any review standard, California's amnesty results were rather impressive. The program generates approximately $144 million in 90 days. To put that in perspective, California's tax rate is approximately one-fifth the Federal rate and the State has approximately 10 percent of the country's population.

In terms of cost, California expended approximately $4 million to administer its amnesty program. This equates to a cost-benefit ratio of approximately $26 for every dollar invested. The cost of identifying these individuals by other means is rather hard to estimate, however, the 26 to 1 rate of return obtained through amnesty we feel was well worth the effort.

Despite these impressive results, amnesty should not be viewed solely as a means of raising revenue. From our perspective, amnesty only makes sense when viewed as part of a long-term strategy to improve compliance.

The enhanced detection and enforcement provisions in our legislation were targeted at the most obvious sources of the tax gap. The message embodied was clear. Detection methods are improved, penalties have been increased, and collection tools are enhanced. Finally, tax amnesty is a delinquent taxpayer's last and best chance to come clean and get back into the system without penalties or fear of prosecution.

In summary, Mr. Chairman, our legislation established both the policy and programmatic framework for the amnesty program. Implicit in California's legislation is the recognition that amnesty from financial penalties and criminal prosecution alone is insufficient to motivate delinquent taxpayers to come forward. In other words, the tax penalty amnesty part of the legislation would be essentially meaningless to most delinquent taxpayers were it not for the new enforcement tools looming on the near horizon.

The experience in California and elsewhere on this point is essentially the same. People are motivated to respond to the opportunity of amnesty out of feelings of fear, guilt, and the prospect of forgiveness. Without question, fear works better than guilt, and either is more effective than forgiveness. by combining fear and guilt we can inspire even the most truculent tax protester to throw in the towel.

In fact, in California we received 1,600 personal income tax applications from individuals who had been members of organized tax protester groups. This represents 20 percent of the identified protester movement in the State of California.

Finally, this brings us to the fundamental question. Are tax amnesty programs a good idea? Viewed solely as a means to enhance revenue, the answer is "no." However, an amnesty program can be a prudent and powerful policy tool for improving compliance when accompanied by appropriate enforcement legislation. Thank you.

The CHAIRMAN. Thank you.

Mr. JACKSON. Now, Paul McDaniel, professor of law and a former employee of the IRS.

STATEMENT OF PAUL McDANIEL, PROFESSOR, BOSTON COLLEGE LAW SCHOOL

Mr. McDANIEL. Thank you, Mr. Chairman, I think I could summarize my recommendations as to the role of tax compliance in meeting the budget deficit in two sentences. The first would be that the committee ask the President to appoint Ira Jackson as the next Commissioner of Internal Revenue. Since I don't think that is very likely to be adopted, I will move on to my second recommendation.

The CHAIRMAN. I thought you were a friend of his.

Mr. McDANIEL. I have a threefold recommendation.

In order to help close the compliance gap three steps are required. One is increased use of withholding. The second is the increased use of cross-checks to nontax data sources. The third is increased audit resources for the IRS.

Let me explain why I think those are the three necessary steps. First, the causes of tax underreporting are various and we need various strategies to deal with it. Of the $100 billion revenue gap that is estimated, well over 10 percent of that gap is accounted for by noncompliance by nonfarm business. This is largely composed of small businesses and people not on the withholding. It is not likely we will put them on withholding. Therefore, what is essential is that increased audit resources be directed at that group.

Second, a step taken in Massachusetts, is to try to identify the other points in the public system with which these noncompliers must come into contact: Registration agencies, compliance with State securities laws, and the like.

The Federal Government it seems to me could make much better use of State resources in that area without actually incurring increased costs of its own.

The second biggest noncompliance area is nonreporting of capital gains. Here it seems to me that withholding at least for publicly traded capital gains transactions is clearly required.

The third major area of underreporting is interest dividends, rents, and royalties. Again, withholding is the only sensible answer because the present reporting system does not enable the IRS to be able with its resources to deal with that problem.

Now, the increased use of penalties it seems to me is unlikely to be very productive. We have an inordinate number of penalties now, far more than the State of Massachusetts has, and the problem is the IRS doesn't have the resources to utilize them.

Another problem is that we have now moved into an era in which for taxpayers the tax system is a lottery. Your chances of winning that lottery are 98.5 out of 100. That is a real winner's game for those who do not want to comply.

The audit resources of the IRS must be increased and adding increased penalties will not likely assist if that is not done.

I would emphasize with respect to the role of amnesty two critical points in the Massachusetts experience. One, it was accompanied by a vastly increased commitment on the part of the Governor and legislature to the resources of the department of revenue. If that had not been done, I think amnesty would not have had the success it did.

The second was that citizens through a very careful campaign were convinced that after amnesty things were going to be different; and they were and are. But without increased resources that message by the IRS is going to fall on deaf ears. After all if you are not paying taxes today why should you pay taxes tomorrow just because amnesty has been declared unless you think there is some reason to?

So, I would conclude that we know what the critical tools are: Increased audit, increased use of withholding, increased cross-checking. The question is whether the political will that has been demonstrated in Massachusetts and California can be brought to bear with the IRS.

The CHAIRMAN. Thank you very much, gentlemen.

One question, Commissioner Jackson, as well as the others. Have you had any dialog with the Reagan administration on your proposals and if so, what has been their response to these approaches?

Mr. JACKSON. Mr. Chairman, I meet regularly as does every State revenue commissioner with my counterpart, the IRS. We have a healthy working partnership at the administrative level. At a policy level, Mr. Chairman, the IRS Commissioner is opposed to the concept of tax amnesty, he believes that it is unfair.

We disagree on that subject. I have also met with Under Secretary of the Treasury Richard Darman, an old colleague of mine from academia. He seems sympathetic to all these notions but I have not heard the President incorporate this philosophy in any budget documents. Although he did refer in the State of the Union

Address 2 years ago to tax evasion as being a moral outrage in our society.

I have not yet seen a programmatic formulation by the Reagan administration which would reverse these long-term trends. I think that most career officials in the IRS would welcome a reversal of the penny-wise and pound-foolish philosophy that the Reagan administration has incorporated.

Mr. **Vranna**. To expand on that; in California we have had a number of contacts with the Treasury and the IRS. They are monitoring the results of the various tax amnesty programs and apparently are studying this issue closely.

Mr. **Jackson**. They have discovered, I think, not only from Massachusetts, Mr. Chairman, but from the experience of many States that have been engaged in this twin and balanced philosophy of tougher enforcement and better service that there might be a winning combination in terms of approaching the 100 million Federal taxpaying people.

Better service, and to reward and reinforce good behavior. I think the IRS would like to get themselves out of the hole. They have had a disastrous feeling since last year, I think most career officials in the IRS would like to reverse both of those long-term historical trends.

The **Chairman**. I yield to the gentleman from Massachusetts, Mr. Atkins.

Mr. **Atkins**. Thank you, Mr. Chairman.

Based on that California experience over the last 90 days with the amnesty program, what would that extrapolate to nationally in terms of increased revenue in the Treasury?

Mr. **Vranna**. If you take the $103 million generated by the California tax amnesty program and consider California's rates are one-fifth the Federal rates that equates to something in excess of $500 million. We have 10 percent of the country's population in California, multiply that by 10 and we are talking about $5 billion.

I should stress, however, that throughout California's amnesty program the No. 1 question asked was this: Are the results of the individuals filing for amnesty in California going to be passed on to the IRS? Even though we were up front about our exchange of information program with the IRS, we had a successful program, I think it is quite clear that the lack of a Federal amnesty program had a dampening effect on California's results.

Mr. **Jackson**. You might be interested in my reading a couple such letters, I will leave their senders anonymous. We received these during our program. One letter states:

> If the IRS adopts an amnesty program it is safe to say that five times as many people would participate if they knew they could pay off their back Federal taxes without fear of punishment for past indiscretions.

Another letter:

> I was recently informed by a friend that you and Governor Dukakis are attempting to get the Federal Government to adopt the tax amnesty project that Massachusetts recently put into operation. Many people, myself included, who want to use the amnesty offer did not because there was the strong likelihood of problems with the IRS since they would not grant amnesty like Massachusetts.
>
> If you can succeed in getting IRS to adopt this program, I will amend my State and Federal tax forms for the last 3 years. I think that with the combined Federal/State amnesty many more people will do the same.

Scores of such letters came in. So, I believe our examples in California and New York that recently raised more than a quarter billion under their programs, the 18 States that now conduct tax amnesty programs, involving more than 500,000 people paying more than $650 million, is clear proof positive that literally millions and millions of Americans have accumulated bad tax habits over the years, that a Federal tax amnesty would raise at least $8 billion in tax revenue and that people would be coming out of the woodwork out of fear, guilt, or gratitude to start off a new day on the right foot.

Mr. ATKINS. Could you give us a general sense, there are 18 States that are presently in the amnesty program?

Mr. JACKSON. They have conducted and completed tax amnesties; yes.

Mr. ATKINS. Do each of those programs have by their own criteria, programs they consider to be successful?

Mr. JACKSON. I believe so. Some States did not succeed. States that did not incorporate John's philosophy of a balanced strategy beforehand, followed by vigorous prosecutions afterward, obviously is a necessary ingredient if amnesty is going to work. Some States did not succeed. We learned from one another.

But many States, Congressman, have gone well beyond tax amnesty. Governor Wallace has submitted a tax act, TECA, in Alabama modeled along the lines of REAP Program. Governor Cuomo recently submitted an omnibus act of which amnesty was one part, Governor Thompson has a tax enforcement program in Illinois.

Many States have pursued this not only in terms of amnesty as one part but increased appropriations for administration, tougher laws, a new commitment to taxpayer services and amnesty as the critical transitional element.

Mr. ATKINS. So, that kind of balanced revenue enforcement program including amnesty is really something that has been adopted in a bipartisan fact by 18 States across the country.

In terms of other revenue commissioners you were indicating there was a unanimous vote of the revenue commissioners?

Mr. JACKSON. Yes; and deep conviction on a unanimous basis by the 50 State commissioners that the IRS could in adopting measures similar to those adopted by the States increase Federal tax revenues by $20 billion annually on a recurring basis.

Mr. ATKINS. And that resolution was passed by the——

Mr. JACKSON. Unanimously by the National Association of Tax Administrators in June 1985. I will submit it for the record.

[At the time of printing the information referred to was not submitted for the record.]

Mr. ATKINS. Which suggested $20 billion?

Mr. JACKSON. Yes.

Mr. ATKINS. Would you characterize—how would you characterize that group?

Mr. JACKSON. As a fiscally cautious and conservative group of men and women, fine Americans.

Mr. ATKINS. OK. The other thing I would like to pursue on that is in the concept of that amnesty and who is coming forth, can you give us a general profile—52,000 people came forward in Massachusetts. How many of those people were people who had never filed returns before?

Mr. **Vranna**. California just completed an interesting study on those individuals who filed for amnesty and were completely outside our system. The study was done by the University of California at Davis. We found what was an affirmation of a fact that we have long believed to be true; tax cheating is very much related to the opportunity to cheat.

We found for example, that self-employed individuals came forward under amnesty in greater proportion to the general population, as did individuals who had real estate transactions. This is not surprising in that Federal studies show that 40 percent of all real estate transactions go unreported. Additionally, a significant percentage of the people applying for amnesty had underreported capital gains from other sources. In addition, a large number of independent contractors took advantage of tax amnesty.

It is not possible to determine the demographics of a tax cheater as it covers a broad spectrum of the population of this country.

However, I think there is one common characteristic and that is opportunity. The thrust of our program and I would suggest the thrust of any Federal program should include better third-party information sources and the better use of data processing capabilities to match tax information against tax returns using the power of the computer because in the final analysis resources will always be limited.

Mr. **Jackson**. If I might, Congressman, let me read to you a representative sample of tax amnesty applicants in Massachusetts. In 1975 a Lexington man, a lawyer was diagnosed as having terminal cancer and decided to stop paying his taxes.

The man eventually recovered, his doctor died and amnesty convinced him to start paying again. A tax examiner stopped on I-95 to help a stranded motorist, he ended up helping him fill out his amnesty form. An 84-year-old electrician came to the post office to request back tax forms for the previous 45 years for which he had not paid Federal or State taxes. He was a little unsure about how sincere the State was about not prosecuting tax delinquents under the amnesty period so he brought along a friend to wait outside with his bail money. The wait was not necessary.

To make peace with the Commonwealth, a retired military chaplain who never filed a return paid $12,000 in back taxes. An individual who had won a State lottery but failed to pay tax on it over a 10-year period came in.

Not all payments were large ones. The smallest check received was from a citizen in Chelsea for $2.07. Two prison inmates from the Danbury Prison and the Massachusetts Correctional Institute in Norfolk filed amnesty forms.

A priest filed for amnesty, the director of our Worcester office said we will grant him amnesty if the priest will grant him absolution.

Mr. **Atkins**. Was the deal consummated?

Mr. **Jackson**. A musician came in with $7,000 and left saying he would write a song called "Amnesty." An out-of-State stockbroker paid $143,000 in an unreported capital gain, a Fortune 500 company based in New York paid $1.050 million and I might add Congressman that thousands of Massachusetts residents came forth who had never filed but who we owed a refund to.

The last such individual gave a warm recommendation on it being the greatest program since sliced bread and we recently sent him a check for $1,700 in back refunds that he didn't think he would ever otherwise be able to claim for fear that he would be prosecuted for his nonfiling in the past.

Mr. Atkins. Can you give me a sense in terms of the success of the program in Massachusetts and other places? In Massachusetts you actually built the amnesty program as I recall into the State budget.

Mr. Jackson. Yes.

Mr. Atkins. So you essentially put yourself on the line in that budget process. You made an estimate as to what you felt tax enforcement program, including as you call it, the balanced program, what that would generate in revenue on the one side, you built that revenue assumption into the budget and then appropriated the resources to carry out the program.

Mr. Jackson. Precisely right, Congressman. I believe that it is too infrequent that State bureaucrats such as myself are held accountable for their claims of success or predictions of future gain. In this instance the legislature and executive branch agreed, that if we were to gamble on the program we were to identify and quantify results in advance which would have to be achieved.

I am happy to say that we exceeded those estimates. Some called them foolhardy at this time. We dramatically exceeded all those and the $550 million increase in voluntary compliance was virtually all gravy, a bonus above and beyond the direct return on our more vigorous enforcement programs which is what we budgeted for.

The point I am trying to make is that above and beyond the direct return of $7 or $10 for every $1 invested in the IRS or in any State revenue department, we saw a multiplier effect where the money was not only cost effectively invested in enforcement but the market changed its behavior as a result of their recalibrating the chances of getting caught and the consequences once detected.

Mr. Atkins. Let me get the sense from you, do you feel it would be fiscally prudent for the Federal Government and for this committee to build into its budget resolution some sum of money that would be part of our economic assumptions for balancing the budget by 1991, and for funding Federal programs from a tax amnesty program?

Mr. Vranna. In California we did not believe that revenue should be the prime consideration. As a matter of fact, we believed strongly in the concept of fair share. Our tax system works best only when everybody is paying their fair share of taxes. Clearly what we perceive to be the situation in California is the honest taxpayer is paying approximately 20 percent too much.

We don't feel the amnesty program makes sense by itself. There has to be the carrot-and-stick approach that goes with it. If there is an amnesty program at the Federal level it should be accompanied by a number of new enforcement provisions, simply increasing penalties is not the answer. It is better processing and final analysis, auditors, revenue agents and collectors.

Mr. **Jackson**. I think it would be irresponsible for the executive and legislative branches not to bet on and count in that budget additional revenue from this source.

I think it is a national disgrace that we have allowed voluntary compliance to plummet from 97 to 81 percent. I think we have a epidemic out there and working men and women will wake up one day and realize by and large they are overwithheld on, they don't have the opportunity to cheat, evade, and steal and they are subsidizing 20 percent of those who are getting a free ride.

We are playing with a fiscal as well as a societal time bomb in this equation and I think if we allow business as usual to continue we are going to become the laughing stock of the great democracies of the world rather than the one from back in the 1950's when we pledged allegiance and Dwight David Eisenhower was President and we said 97 percent compliance was the distinguishing characteristic of our democracy.

And our neighbors, the United Kingdom, France, Greece, Australia, the one difference that was the litmus test, the glue of American society and fabric of public support for our Government was 97 percent voluntary compliance. Well, it's plummeting and plummeting fast. I think it is a national disgrace.

Mr. **Atkins**. What then would be a responsible figure given the problems the IRS has had with their computer system? I understand they have had a new round of problems there, problems with morale, within the workforce at the IRS, given their current conditions. What is a responsible figure for us to put into that budget resolution? Is it the $20 billion that——

Mr. **Jackson**. I believe a balanced program along the lines of Professor McDaniel and John have discussed that would incorporate the provisions that the National Association of Tax Administrators has advocated and would incorporate many of the requests of long-term career employees and managers at the IRS could safely generate $20 billion in the first full year of implementation. That might take us a fiscal year, Congressman, before it could be fully implemented.

I am not fully familiar with the Federal bureaucracy in terms of lack of hiring new employees and drafting regulations. There may be a hiatus of a year or two in terms of fiscal employers but once it is up and running I think with confidence if Congress and the administration back it with political resolve, and appropriations and tough laws you could count on $20 billion in additional revenue each and every year and that is half—as you know, better than I, Congressmen—half the Gramm-Rudman mandated deficit cuts that are necessary in fiscal 1987.

Mr. **Atkins**. Something that would be very helpful for us is if the Association of State Revenue Commissioners could come together, could put together the suggested outline of a program for a national tax enforcement, national fair share tax program, suggest it to the Ways and Means Committee, and to this committee as part of a deficit reduction solution, and give us the opportunity to respond to that.

But I think we now have sufficient experience in enough different States, New York, Massachusetts, Alabama, Illinois, California, with very different characteristics in their populations and their economies that we could begin to put together that kind of a program.

Mr. **Jackson**. We might find it presumptuous to suggest to the Congress the exact provisions of such a bill. I might add that there is an additional bonus for the States in Federal success. If tax evasion is costing Uncle Sam and Ronald Reagan and the Congress of the United States $100 billion this year, tax evasion is costing our 50 States $25 billion in lost tax revenue.

So shouldn't the Congress enact a Federal equivalent of our Revenue Enforcement Protection Program, should it succeed in generating $20 billion a year in additional tax revenue the States are going to be the beneficiaries of a windfall of at least $4 to $5 billion a year in State tax revenues which is going to more than compensate for the lack of some of the programs that you are currently contemplating having to cut back on.

Mr. **Atkins**. That could be a replacement for revenue sharing.

Mr. **Jackson**. Exactly.

Mr. **Atkins**. Thank you.

The **Chairman**. Bring the gentleman from Montana, Mr. Williams.

Mr. **Williams**. Gentlemen, tax collection agencies, not Americans, favor the bureau in government whether it is at the State or Federal level.

I just wonder how citizens in California and Massachusetts take to increased enforcement, cross checks and more vigorous auditing?

Mr. **Vranna**. It is important to get the right message across. The first thing we did in California was to try to educate the population that tax cheating is not a victimless crime, as people in general perceive that it is. When your neighbor cheats he is picking your pocket to the extent of 20 percent of your tax liability. I can tell you for California, the reaction to our amnesty program and our stepped up enforcement has been very positive, because we made a major effort to try to educate the public.

Mr. **Williams**. Previous to the passage of the amnesty program or after?

Mr. **Vranna**. Prior to implementation of the program, we initiated stepped up enforcement and education programs. As a matter of fact before any Federal amnesty program is enacted I would recommend and our State would recommend that the IRS begin that educational process, by improving their public service announcements and getting the message out as to who the victims of tax cheating are and begin to step up their enforcement program.

In many respects a Federal tax amnesty program might be a logical precursor to Federal tax reform.

Mr. **Jackson**. My son, Congressman, called me the Commissioner of Poo-Poo. We are not the best loved people in our society but our approach in Massachusetts has to be based on fairness.

We have attempted to underscore the reality that the owner of a restaurant who collects meal taxes from unsuspecting customers and doesn't hand that money over to the State is engaged in the moral equivalent of unarmed robbery. With our balanced effort designed to reinforce and reward good behavior, that 80 percent is paying and paying through the nose. With simpler forms, accessible, free taxpayer assistance and record fast refunds, I think we are not popular necessarily. The public in Massachusetts is generally respectful of our twin mission of deterring tax evasion at the same time that we are providing honest taxpayers with better service.

I think that has to be the balanced equation that IRS pursues or we will see further undermining of voluntary compliance.

Mr. McDaniel. I would just add there is another source that you can tap into in that respect. I think virtually every tax lawyer has, as I have, had the experience of the client saying, "Give me the favorable interpretations of the rules; if you don't I will go down the street and find somebody who will."

This is a serious problem because nearly half of all Americans now have their tax returns prepared by third parties. If the message continually goes out to tax advisers and preparers that the only responsible advice is to take your chances, then you are destroying what has become one of the foundations of the self-assessment system.

I think that, contrary to expectations, increasing audit coverage and enforcement will increase the morale and respect of that professional tax community and without that respect and morale, except for withholding, the system isn't going to work.

Mr. Williams. A few years ago, or rather a couple of years ago, I guess, the Congress legislated certain withholding of interest. The American people went right straight through the roof. We received more letters and objections to that one act than anything in the past 10 years. What did we do wrong? Did you find it all sweetness and lights in your States? What happened to the act we passed?

Mr. McDaniel. You didn't get the American bankers on board. If you——

Mr. Williams. That may be a good point. Did you get them on board?

Mr. Vranna. One important element in drafting enforcement legislation would be to go out and talk to the impacted groups, explain the problem, and solicit their points of view.

We don't have a monopoly on good ideas. We dealt with the California CPA society, the California Chamber of Commerce and others, presenting the problem and together we developed meaningful tax enforcement measures.

Mr. Jackson. The legislative proposal which Congressman Atkins carried as chairman of the senate ways and means committee had the support of most large business interests in the Commonwealth of Massachusetts and was also supported by human service providers and others who were going to be affected by the budget cuts that would be a consequence of not pursuing this tact.

I think Mr. Atkins could teach us lessons in coalition building. Then he got people who were never concerned about tax administration to come together and protect the program from some of the interests most threatened by it.

Mr. Williams. Thank you.

The Chairman. We want to thank you for your testimony, gentlemen and once again, you have given us an interesting key of success. This has been a model here in Massachusetts which can help us as we struggle with our deficit question and our revenue side of the equation.

There are many of us in the Congress who believe that in order to reach a true balanced budget you are not only going to have to restrain spending but you will have to do something on the revenue side.

Here in Massachusetts you did something on the revenue side. You did something creative and innovative without raising the individual tax rates. You provided additional revenues so you could maintain your commitments to service, technological and scientific growth. We thank you for those suggestions that you have given to us to take back.

Mr. JACKSON. Thank you very much, Mr. Chairman.

The CHAIRMAN. The committee calls to the witness table former U.S. Senator Paul E. Tsongas; Arthur Robbins, owner, Lowell Hilton Hotel; James Milinazzo, executive director, Lowell Development and Financial Corp.; and Yim Yi, Job Training Partnership Act [JTPA] graduate.

Let me welcome this panel, which will be one that gives us some insights into the Federal role in the local success story. We welcome Arthur Robbins, the owner, I believe, of the Lowell Hilton Hotel where we are holding this hearing, and thank you for allowing us to use your facility.

Also we welcome the executive director of the Lowell Development and Financial Corp., Jim Milinazzo, and Yim Yi, who is a graduate of the JTPA Program, Job Training Partnership Act.

They will give us their perspectives on the Federal role in the Lowell success story. Then, of course, we welcome our esteemed colleague from the U.S. Congress, former Senator Paul Tsongas, whom many of us knew when he was a Member of the House of Representatives.

After my election in 1978, I went to Washington to meet with leading emerging leadership of the House of Representatives. That meeting was hosted by four Members of the House, Chris Dodd, Paul Tsongas, Dave Obey, and I cannot remember who the fourth Member was. I think the meeting was held in Congressman Dodd's office. Shortly after that time, two of the four people left the House and went to the Senate, Chris Dodd and Paul Tsongas. I am just delighted to see you, Senator, and to be here in your State. This is a community that you made a very important role in terms of the success of Lowell.

I know that Pat Williams as well as Chet Atkins welcomes you to this panel.

We would like to begin first with Senator Tsongas, then we will proceed with Mr. Robbins and then Mr. Milinazzo, and then Mr. Yim Yi.

So we welcome all of you, but especially a warm and hearty welcome to one of the great spirits of public policy from the State of Massachusetts, Paul Tsongas.

STATEMENT OF PAUL TSONGAS, FORMER U.S. SENATOR FROM THE STATE OF MASSACHUSETTS

Mr. TSONGAS. Mr. Chairman, I would suggest that at that meeting that we had, that if we had any sense we should have known that you would have had more power than the four of us put together in short order, and that has happened. I have advised my fellow panel members, having sat on that side many times, that there is a great deal of appreciation for brevity, and we will try to honor that.

The chairman is going to give you the agonizing details of this process. I will not go into it. Let me try to set a kind of philosphical framework. The entire congressional delegation from this city, Congressman Atkins, and the two Senators, voted for Gramm-Rudman, and they have been criticized by some for doing that. I would just like to make it clear that had I still been in the Congress I would have voted for it, too.

Gramm-Rudman is a necessary and agonizing response to a hemorrhaging that will affect everybody. The notion that it can be ignored, I think, is very dangerous. My own view is that Gramm-Rudman is a poor second choice, as far as policy is concerned, that a budget freeze that was looked at very seriously in 1984 and passed the Senate—I was involved with it—is a much better approach because it embraces the idea of shared sacrifice.

Kind of what you have to face and I am sure Mayor Flynn went into it in great detail is choosing between programs and the whole scenario of winners and losers, and that I think is politically impossible.

If it is going to happen, I would rather it be you doing that than me. I have no nostalgia for the process. If Gramm-Rudman were to be thrown out if you will, for constitutional reasons, I would suggest another look at a budget freeze as an alternative approach.

The issue that is before us here and one reason why something like the freeze would be attractive is the UDAG Program.

Now, it is no accident that this hearing is taking place here with that view rather than the ballroom, so I am told. The fact is that Lowell was probably as far down a city as one could imagine. As you know, I spent 2 years in the Peace Corps in Ethiopia and I remember a story about Abuba Bakila, the Ethiopian who ran barefooted in the Olympics in Rome, and they were trying to describe the decay of Addis Abba, and he said it was similar to Lowell, MA and Patterson, NJ.

The idea was in the entire Nation if you had to pick out a pitstop if you will to describe the decay in our cities, this was the one they choose.

I think if you have a chance later and go around, you will see how far the city has come, it has now become a model of urban renaissance.

It would not have happened without UDAG. If there was no such thing as the UDAG Program, this hotel wouldn't be here, that Wang training center would not be here, the likelihood in my opinion is that Wang Labs would be on Route 128 and all the economic renaissance, the theater and all those things which take place now simply never would have occurred.

So the question then arises, Is the renaissance of a city like Lowell important to anybody? If the answer is no, then let's just say that and all the other cities that want to be the next Lowell in the process will simply never have the opportunity. That is an issue of philosophy.

The second issue is economics. It is simply easier from a Federal point of view to have people working and the self-respect that comes with it and the economic sustenance, than to somehow have them not working and trying to keep them on welfare, so the economics of a UDAG Program spin off so much that you not only have a lot of employment, but you have a community that could look at itself with pride and people will work.

The unemployment rate here is extremely low, hovering in the 3 percent range. When I became the Congressman in 1975, it was 14 percent. You can see how much better they do.

The final point I would make to you is there was a tradition in this city of the very activist congressional involvement in what happens. Those that preceded me promised action. Congressman Cronin began the notion of a national park, Jim Shannon who you served with succeeded me and Chet is probably the ultimate example of an activist Congressman who not only has the Federal ties, but also has ties to the State.

All of that is working for the city park programs that can leverage in the investment. The concern that we have is not so much this city. If there is never another UDAG Program in Lowell, Lowell's momentum would continue because critical mass has been achieved, you have scores of Lowells however, who have not achieved renaissance who have I think the same rights to what we have enjoyed here.

The notion that the UDAG Program is in trouble is a violation of any rational analysis of the whole issue of leverage.

The final point I would make to you is UDAG was a Republican program. The UDAG Program was conceived originally by Gerald Ford and perhaps some reference of that would be important because it is Republican in the embrace of private sector investment as opposed to the Federal Government doing everything.

I was there during the original testimony of the UDAG Program before the House Banking Committee, and no one envisioned the success it has had. For it to be in trouble a decade later after all that has happened, I speak ill for the process of analysis.

But I welcome you to the city and thank you for the weather that you have brought with you and hope you get snowbound and have a chance to see the rest of the city.

The CHAIRMAN. Thank you very much. Mr. Robbins.

STATEMENT OF ARTHUR ROBBINS, OWNER, LOWELL HILTON HOTEL

Mr. ROBBINS. Thank you very much, Congressman. What Senator Tsongas said about the rebirth of a city I can say without a question of a doubt has been just fantastic. I am a real estate developer and when a developer looks at the potential of developing, he looks at a lot of factors.

He looks at location, and then again he looks at location and then again he looks at location.

When Senator Tsongas asked me to come to Lowell to look at a downtown location for a hotel, I said Senator Tsongas, thank you but no thank you. If a hotel is going to be built it will be built on 495 or 128 but not in downtown Lowell.

After 3 months of arm twisting I finally came up to Lowell in the bleak month of November, of October or November 1979 and Senator Tsongas and I stood on the banks of the canal here and he had a vision and he said if a hotel was built in downtown Lowell, a city would be reborn, a city would be reborn not from a point of view of just an economic rebirth, but as he mentioned then, culturally, educationally, things would become alive.

If you look back after 6 years of the trials and tribulations, the ups and downs and trying to develop a downtown hotel here in Lowell, MA, I am really gratified because No. 1, you have to look at the situation of why in the heck a developer would ever come to downtown Lowell or for that fact, prior to coming here to Lowell I was responsible for the development of a hotel in downtown Worcester, MA, a Marriott in downtown Worcester, and again the situation was very similar to Lowell.

The chairman of the redevelopment agency in Worcester, a man again with the same vision of Senator Tsongas, said to me if you built in downtown Worcester the city would come alive again. We have a new centrum downtown, things would happen.

Anyway, in looking at Lowell and I will jump between Lowell and Worcester because fortunately both hotels were recipients of UDAG's and I can say without a question of a doubt, that both hotels would not be built in the downtown locations if it was not for the UDAG Program.

Both hotels would have been built on the interstate highway, both hotels would have had no action, reaction from the community, and I think if you look at what the UDAG Program has accomplished in both Lowell and Worcester, it is a symbol of what America is all about.

You cannot let cities die. Cities are here to survive and old New England, Midwest, Southeastern, wherever cities are there are people and you come in to a developer, he comes in to a downtown location when he feels that there is a sense of a rebirth that the city wants to be alive.

Sure, a developer comes into a city because he feels the bottom line shows that it is going to be positive. But the UDAG Program in fostering my developments in Lowell and Worcester has accomplished many things, and I am very proud to be able to say that what Senator Tsongas led me to here at the Lowell Hilton and what Lad Plumley led me to in Worcester, MA, could not have been accomplished without the UDAG Program because there are extraordinary developmental costs that occurred in both cities and without help, without the assistance of the Government, the hotels would not have been possible.

The developments in a downtown location would not have been possible. If you look at what has happened, the positive results, you must say that the program has been a tremendous success and I would hate to see the program disbanded. The country has a lot going for it.

The old cities have a lot going for them.

I honestly would like to feel that the message that we give, that I give you today, is that the old cities are alive, they are beautiful, that the people are being invigorated because of the development here at the Lowell Hilton, and at the Worcester Marriott.

The spinoff effect is great because this hotel was built, Dr. Wang decided to build his training center. The auditorium came alive. The canal system is coming alive. I am not saying the hotel was the prime motive in these things coming about, but it was a great, great factor in what is happening.

There are more and more dollars coming into Lowell, more and more private dollars, and what has been the greatest, I would say, the greatest factor in the success of the UDAG Program is No. 1, where the Government assists a private developer initially, more and more and more private dollars spinoff from that original development, and I think if you look at Lowell 2 years from now or 4 years or 5 years from now, a $25 million investment here at the hotel and the UDAG for this hotel amounted to approximately $5.6 million, but an overall investment of $25 million will be approximately $150 or $200 million in that short period of time, so that one $5 million grant, alone, a loan I should say, not a grant, a loan, the loan was also in Worcester where interest is paid, the community gets the money back, uses the money for block grant funds, when you look at it in the long run, the UDAG Program has been most effective in these two cities and I strongly urge the Congress, you Congressmen, to go back and fight like heck for this program. It has been a tremendous success.

The Chairman. Thank you very much, Mr. Robbins.

Mr. Milinazzo, we welcome you and would you share with us your views.

STATEMENT OF JAMES MILINAZZO, EXECUTIVE DIRECTOR, LOWELL DEVELOPMENT & FINANCIAL CORP.

Mr. Milinazzo. Thank you, and good morning, Chairman Gray, and Congressman Atkins and Congressman Williams. It is a pleasure to be here to address the Budget Committee on the UDAG Program, and the effects it has had not only on Lowell's economic rebirth, but on Lowell's secret to success, as Congressman Atkins puts it, cooperation between the public and private sector.

The Lowell Development and Financial Corp. is a quasi public development corporation, created in 1975 to bring all the local banks together to promote the economic revitilization of Lowell through rehabilitation and construction of commercial, industrial, and residential structures, by providing low-interest financing.

The Lowell plan, on the other hand, is a private economic development corporation created in 1979 to foster and develop the concept that through cooperative effort of the municipal government and investment of private funds, the city of Lowell shall continue its return to prominence.

In 1978 the city of Lowell contracted with the Lowell Development and Financial Corp. to administer the repayment of our first urban development action grant. As the UDAG chart indicates, it was a $5 million grant to the city leveraged by $30 million investment by Wang Laboratories to construct their first corporate office building in Lowell. Instead of simply granting the proceeds of the UDAG to Wang Laboratories, the city loaned the $5 million at 4 percent interest, paid back over 25 years.

What this did was create a revolving loan pool where the LDFC receives $30,000 a month, and we put those funds, 80 percent into an industrial development account, 10 percent of those go into a commercial neighborhood account, and 10 percent into a residential mortgage assistance account.

We in turn reloan those moneys back into the community at 40 percent of the prime interest rate.

Using these repayments and the initial investment by Lowell banks, the LDFC financed over 70 development projects creating net loan receivables of almost $9 million and leveraging $44 million in private investment as of June 30, 1985.

For every $1 of LDFC loan funds the private sector expends about $5, a very healthy ratio indeed. Today, as a result of this initial $5 million UDAG, Wang Laboratories owns over 3 million square feet of office and manufacturing space in the city and employs 30,000 worldwide with the majority working in the Lowell area.

Most local residents view Wang's presence as an economic panacea. Likewise, both public and private sector leaders have attributed much of Lowell's economic resurgence to Wang as the company's demonstrated commitment to the city has attracted additional investment and industrial development to the city of Lowell.

The second UDAG in the amount of $5,600,000 that Mr. Robbins mentioned leveraged investment in downtown Lowell of over $50 million. The chart again illustrates the UDAG project showing the leaverage of $20 million in the hotel, $14,200,000 in the corporate education center across the Patuxet Canal, $1,200,000 in the access road, $7 million in the renovated memorial auditorium, $8,200,000 in the Lower Locks parking garage, $3,100,000 used to help the financing of the construction of the garage, $2.5 million was loaned to the hotel developer.

The interest rate of the loan is 8 percent amortized over 25 years, with a 10- to 20-percent participation to the LDFC, and net cash proceeds. These funds similar to the Wang Laboratories, UDAG funds are deposited into an industrial commercial development account and neighborhood development account, however, on an equal basis.

The repayment of the hotel UDAG begins May 1, 1987, and will be reloaned back into the community. The remaining three UDAG's are $2.4 million award for Post Office Square garage in support of a $19 million military restoration project, $750,000 for the widening of a major access road to support a $5 million office development, and a $435 million award to leverage $2 million in below market residential mortgage financing to provide 38 units of housing for low and moderate income in Lowell, all of these projects have a variety of payback schedules, but are similar to other UDAG's.

These funds come back to the LDFC to be reloaned to worthwhile projects.

The second chart I would like to show you shows exactly what the $5 million UDAG's which total $14,185,000 leveraged in private investment. It has resulted in $109,100,000 in total direct private impact on the city of Lowell. Using the revolving loan funds that go through the Development Corp. that has leveraged an additional

$44 million in private money, so the direct and indirect private leverage as a result of $14 million in urban development action grant funding has produced $153 million in total and indirect impact.

The effect of private investment ratio is 11 to 1, a very healthy ratio indeed. In jobs, the third chart, the labor market here has increased from 28,304 jobs in 1975 to 40,099 jobs in 1984, an increase of 12,000 jobs.

The unemployment rate during that same time has fallen from 12.6 percent in 1975 to 2.8 percent as of November 1984, a 78-percent decrease.

In tax dollars returned to the Federal Government using $14,415 as the median income multiplied by 12 percent Federal tax rate multiplied by the 12,000 jobs, over $20 million has been repaid to the U.S. Treasury. This estimated annual figure is clearly more than the UDAG amounts received by the city of Lowell.

Another major factor in Lowell's rebirth has been the Lowell plan, a coalition of government and businessmen working together founded by Senator Tsongas and the city manager. The plan depends on the local business community and partnership between the public and private sectors. The Lowell plan was indeed a spinoff of the LDFC in an effort to expand the role of the private sector in Lowell's revitilization effort.

The last chart I would like to share with the committee is the goal in 1980 was to realize $106 million in public-private investment by 1985. As the public-private investment chart indicates, the city surpassed our goal by generating over $228 million in investments. In 5 years, the Lowell plan raised over $1,600,000 of private funds for community reinvestment.

Since its inception, the Lowell plan, working in concert with city officials, has made significant progress in several major developments, including this hotel.

In closing, I would just like to say that Lowell is fortunate that through our participation in the UDAG Program, our public and private communities are able to provide the leadership and commit the resources that have made Lowell a national model for urban revitalization.

I urge the members of the Budget Committee to avoid any cuts in the UDAG Program for it has worked in Lowell. Thank you.

Mr. Atkins [presiding]. Mr. Yim Yi.

STATEMENT OF YIM YI, JOB TRAINING PARTNERSHIP ACT GRADUATE

Mr. Yi. Good morning. My name is Yim Yi, and I live in Lowell and I arrived in the United States on June 21, 1983. I came from Cambodia and could not read or write, as is the case, because of illiteracy in Cambodia.

In a refugee camp in Thailand, I took the ELS class for almost 2 years and came in with a score of 86. Then I got a good job. I work for $5.50 an hour. ELS class, to learn English, asked me to say this.

I feel good about myself. Refugees need English class and training to get jobs and not welfare. Thank you.

Mr. Atkins. Thank you very much.

Let me first commend the panel for really all of your part in what is an incredible story and a productive use of Federal commitment and Federal investment. I think at a time when people are always looking for Federal programs not working, Federal programs being abused, the story in Lowell is an incredible story of success and of a public sector that worked with every bit the same efficiency that the private sector does.

Of particular concern that I have, and I wonder if this panel could address it, and that is that in many ways what has happened here and around Massachusetts is because of past Federal investments.

We are on the verge of a situation where we will be able to bring in people who have been totally excluded from the market. These are people that never showed up in the unemployment statistics because they could never network in the past. Employers wouldn't consider them, wouldn't look at them for hiring for any job.

Now we are in a situation where those people for the first time in their lifetimes have now an opportunity to get out of a situation of public dependence, to have economic independence, and personal dignity for their families, and to aspire to upward mobility.

It seems the threat to all of these Federal investments comes and we are really closing the door just after the developers, and business interests, and other people have had, and the large employers have had their chance to share in those programs. I think they have shared productively. The door is now being closed on the people who never have had a chance to get into the economy.

I am wondering about your comments on that. I know, particularly here in Lowell we had, when Paul Tsongas started out 10 years ago, we had the highest number of so-called unemployed parents, a welfare program in the United States, highest per capita utilization of that program in the United States.

By last check, there was nobody, not a single individual in the Lowell welfare office, on that unemployed parent program.

I am curious as to your thoughts about that. Who will be excluded by a shutdown of this Federal-State partnership?

Mr. TSONGAS. Well, I think the answer to that is obviously in the question and I think the assumption is correct.

One of my concerns of my first year in Congress was the office hours and the vast majority of the constituents that came to see me were looking for a job, and I had no jobs to offer, and by the end of the process, it was very poignant because they would tell stories of not being able to sustain their families, and the dislocations, and emotional disorders that came from that. Today you don't have that problem.

To the extent these programs are cut back, that kind of constituency is neglected and they will pay the price.

The other comment I would make is that I find the embrace of Star Wars absolutely intriguing. The notion that there is this vast megabucks treasury available to do something, which you will hear later on, at best is very questionable, gives the impression to that constituency you spoke about that there is money for things that Washington desires but not money for things that would impact them.

So, again, you find yourself in the winners/losers syndrome. One should not be surprised when the losers are bitter.

The impact of that on the society in general in the sense of "common wealth" and the best use of that term, but also the disenchantment and, I think, eventual decay of the foundation that we are a society where everyone has a chance to participate.

The CHAIRMAN. The gentleman from Montana, Mr. Williams.

Mr. WILLIAMS. Thank you. I enjoyed the testimony from each of you.

In the budget message that the President sent down and which we are here discussing, he writes something that I think you would agree with. He continues with respect specifically to this program and sent us a message with which you obviously agree.

The President said in his message: "We have had some extraordinarily good years and our economy is performing well with inflation coming under control. Economic growth and investment are up."

Well, not everywhere in this country, but certainly in Lowell and here in Massachusetts you agree with that.

Then when it comes to the roadmap and to one of the stops along the way where we continue to reach for the kind of America that President Reagan and the rest of us want to see, in that particular part of the budget roadmap that affects UDAG, he says this: "UDAG imposes Federal priorities on State and local governments. UDAG distorts economic decisionmaking there by inducing firms and individuals to use scarce economic resources less productively."

So it seems to me that while you are saying, yes, things are a little better now and we want to continue, you have a different way of getting there than the President has. It seems to me that this is the divergence that we need to talk about and to consider, as Chairman Gray and the rest of us, different Members in different cities, move this Budget Committee hearing around the country.

We need to try to find out why it is that the President and the American people agree on the vision of America but seem to disagree on the specifics of how we get there. What has caused that gray dichotomy in this country? Maybe it is the first President in history who is enormously, politically popular but with whose specific proposals people don't agree.

I admit to confusion on that, Senator. You have backed away from the chessboard long enough, maybe you have a different perspective on how these things have happened.

Mr. TSONGAS. I think the President operates with one enormous disadvantage and that is he has never been to Lowell. If we could correct that problem, I think he would have a different view.

The President is correct in the sense that the UDAG Program, in essence, is a kind of capital substitution process. Arthur Robbins would have built a hotel whether there is a UDAG Program or not. Wang would have a national headquarters someplace. The issue is where it would have been.

So Arthur Robbins is on 495 and Dr. Wang on Route 128 would still be investments, yes, but what about the cities? Arthur Robbins on 495 and Dr. Wang on 128 would have no spinoff. You would not have this across the street, all the restaurants, et cetera.

So it is a question, I think, yes, you would have an investment taking place, purely a bottom-line decisionmaking.

When I made the social argument to Arthur Robbins, I was astonished that he listened to me, which really lowered my estimate of his capacity as a developer. I don't meet people like that in the course of my postcongressional life. The fact is he responded only because eventually the numbers would work.

The final point I would make is this: If you have to engage in the winners-losers game—which I would avoid if I could—but if you had to choose, let me give you a for instance, between revenue sharing and the UDAG Program, I think both are very important. Revenue sharing, however, gives you no leverage. You are basically using Federal dollars to in essence subsidize communities that don't have the same resources. I think that is important to sustain.

UDAG gives you the leverage that brings about the investments that eventually can make up what you have lost in revenue sharing. That is a draconian kind of decision, but I think that there is no substitute for private dollars. There is no such thing as critical mass of public dollars. Never existed, never will exist. The only critical mass that exists is private investment.

The UDAG Program, and others I think like that, I would put at the very top of the priorities.

I had someone call me yesterday talking about some of the social programs, poverty programs, that kind of thing, and the issue Congressman Atkins raised earlier. Part of the reason those things have impact is they are getting at a lesser and lesser constituency because so many other people have been brought into the mainstream through the UDAG Program, and Lowell, and Lawrence, and Chicopee, and Patterson, and Troy, these cities will still be here 50 years from now. The question is whether they will be centers of growth or centers of decay and the UDAG Program, I think, probably has more impact on the answer to that than anything else.

But you got to give the President credit that a lot of these programs were abused. There was the sense of endless Federal dollars and the President has succeeded, I think, in narrowing that perception down to the Defense Department. If we can just eliminate that last part of it, we will have a budget that most people can embrace.

Mr. WILLIAMS. Mr. Robbins, you, as an aggressive, energetic businessman, must agree with the President's view of the economy as well as his belief in the private sector, and yet you disagree with the elimination of UDAG, which by the way, he eliminates not just in the next budget, but kills tomorrow, right now.

Mr. ROBBINS. Yes, Congressman. I agree with the President's budget to a certain extent.

In addressing a situation as a developer, you don't always look at a bottom line. Many developers probably if they hear me saying this will say: "You're crazy." But there is more to developing, there is more involvement than strictly to see if a project makes $100,000, or $500,000, or $10.

The creation of something that is positive in a community that could not have been accomplished on 495 means as much to this developer as the bottom line, and I think if the UDAG Program is investigated and, yes, maybe there have been abuses like there have been abuses in many programs, but I think if you look at the positive UDAG's that have been undertaken in this country, you will see many, many things that would not have been accomplished in the country.

As I say, I say with great feeling that there is more to developing than just looking at that line at the end of the statement. There is a heck of a lot more and in developing in Lowell or Worcester or in any other downtown locations which need so much, it is a pleasure and a commitment and understanding that there is more to life than dollars. It is people and it is creation of jobs and cultural, social, economic opportunities.

Mr. **Williams**. Thank you very much. Thank you, Mr. Chairman.

The **Chairman**. We want to welcome our colleague from the House of Representatives who represents a portion of the State of Massachusetts, our good friend Mr. Markey, who has just joined us. We welcome you. Good to have you here.

Mr. **Markey**. Thank you very, very much. Thank you very much for having the hearings, Mr. Chairman, in Greater Lowell.

I represent the surrounding areas, Tewksbury, Wilmington and Greater Lowell, and the success story and the booming economy of this area are largely a product of the kinds of Federal money that have been infused into the economy in this region largely because of the work of the man who sits in the middle of this panel here today, but also because of the kind of private capital that flowed subsequent to that commitment of public capital, and that is what is represented by others who are sitting at the panel and around the room.

We have other examples. In my own district, in Chelsea, a city which is now turning around and has a future, not just a past, largely because of the largest small-city UDAG ever given in the history of the United States, back in 1978; Malden, my hometown, which has 10 urban development action grants, one in almost every single corner in the downtown area, a community where the prognosticators were predicting would see history pass it by but now has a thriving future to which to look forward. And in community after community, not only here in Massachusetts but around the country there are tremendous examples of the use of this program and many others including the urban parks programs.

I know the Senator was able in his term of office to be able to obtain urban parks money to bring it into Lowell. In Revere we were able to get every park done with UDAG, and Malden, and this gives people a sense of community and sense of why they would want to continue to live in those communities.

My problem with the Reagan budget, Mr. Chairman, is that there really is a distortion of priorities. The total shift in the emphasis of the Reagan administration is no more clearly evidenced than in the committee in which I am chairman of, the Energy Subcommittee of the Commerce Committee. There from 1981 to 1986, there has been a complete reversal in priorities. In 1981, two-thirds of the Department of Energy budget went to alternative energy resources and one-third went to development of nuclear weapons which is the responsibility of the Department of Energy.

As of 1986, two-thirds of their budget went to develop nuclear weapons and only one-third went to the development of alternative energy resources, the kinds that can help produce civilian jobs and help give us the kind of insulated domestic energy future that will protect our economy for the long run and the jobs that will in their own way help assure we have a renewable job creation in this region, not just dependent upon the tides going in and out on defense spending.

My hope is that this administration, Mr. Chairman, understands that there are two deals which have to be struck this year. One is a walk the President has to take with the Democrats in this country that can allow for reasonable cuts in social spending, defense spending, and for revenue enhancement. That is a package that can be put together if people are willing to work together to aim toward some balanced solution to the problem of the deficit.

But there is another problem which is the President also has to take another walk with Mikhail Gorbachev later this year. There the President is saying he cannot have cuts in defense spending, that the SDI has to be fully funded, there can't be any cuts whatever that it will undermine his negotiating hand as he goes in to discuss important strategic arms issues with the Soviet Union.

If that be the case, then unfortunately for the President there can be no deal on the first walk that he has to take with the Democrats and those who believe in preservation of social programs. If the second question to the second walk is that he can have no cuts in defense spending, then unfortunately all consensus will breakdown on the needed compromise on the first and also very important compromise that has to be reached on the domestic economy.

I compliment you, Mr. Chairman, for the conducting of these hearings and taking this important panel around the country because I think it will help to spotlight this almost intractible dilemma which the President has himself caught in now, trying to have it both ways at the same time saying that he wants to see a balanced budget yet he wants to see no cuts in defense spending going into his summit with Mikhail Gorbachev. You can't have it both ways and you can't say you don't want any of these missile systems cut and at the same time say no matter how much their missile utility might be questioned and at the same time say you are casting the same kind of questioning eye toward that section of the budget as your social programs.

I want to compliment the people here on this panel. I would just like to ask one question, and that of the Senator. What is your long-term view, Senator Tsongas, of the future of Lowell and communities like Lowell in this country if the President's ultimate goal of dismantling all these programs is successful and we see the further implementation of his social Darwinism philosophy, which he brought to Washington in 1980, fully implemented?

Mr. TSONGAS. Let me answer briefly because I did answer this.

Lowell will do fine. Lowell has created a situation where the investment continues and that process I don't think can be stopped. There is just too much money to be made here.

The problem is that all the other cities that come behind Lowell in this timeframe will not achieve critical mass and will stop their progress and slide back to decay that was the fate of these cities 10 years ago.

So I think Lowell has in essence escaped the orbit of decay but there are so many other communities that would like to do the same. They would be stopped dead in their tracks.

In 20 or 25 years your successors on these committees will have to face the problem of what to do about it. They will look back at us and wonder why we did what we did.

Mr. MARKEY. Thank you.

The CHAIRMAN. I want to thank the panel for their testimony. Once again, we have heard from our first panel that, yes, there are solutions to these deficit issues. It has been suggested that we look at the revenue side. Now we have another panel saying that there can be a partnership for economic growth and development that allows communities like Lowell and others help themselves.

As the Senator has pointed out, because of the partnership through UDAG's, EDA, community development block grant, and revenue sharing, Lowell has passed the point that if these programs were eliminated the investment would continue. But there are many other Lowells out there in America that want to turn their community around. Thus you have said to us it seems to me that somehow if we can reduce these deficits, and at the same time maintain a partnership between local government and the Federal Government and an incentive for business leaders to invest in these communities, that this is a good thing.

We want to thank you very much. It is particularly good to see our former colleague, Senator Tsongas.

At this time, the Chair will call to the witness table William Kaufmann, associate professor, J.F.K. School of Government, Harvard University; Robert Gough, senior vice president, Data Resources, Inc.; and Kosta Tsipis, director, Program in Science and Technology for International Security, Massachusetts Institute of Technology.

Gentlemen, we welcome you to the hearings of the House Budget Committee. We particularly look forward to your testimony with respect to the defense budget and its effect on research and development and the civilian economy.

Your testimony here is important because over the last 4 or 5 years we have heard over and over again that increased Pentagon spending automatically translates into greater investment in local economies as well as in research and development that has been transferred to the mainstream of our economy.

It will be interesting to hear your testimony, particularly the impact of defense spending in this State as well as in the Nation. We welcome you to the House hearing and we would like to start with Mr. Kaufmann, and then Mr. Gough, and Mr. Tsipis.

We would urge you to summarize your testimony since it will be submitted for the record in its entirety.

STATEMENT OF WILLIAM W. KAUFMANN, PROFESSOR, J.F.K. SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY

Mr. KAUFMANN. Thank you, sir. I apologize for the lack of a prepared statement. I have not had the opportunity to write one. I hope to submit one later.

I also want to thank Congressman Atkins and Mr. Pat Bogenberger who arranged to fly me up here this morning and, I hope, back to Washington this afternoon and back to Boston again tomorrow. Between trips, I would like to make just a few propositions to you about the defense budget.

First, if you look back over the years, and I have looked back as far as fiscal year 1948, you will find that on the average Congress has been very generous in the funding of defense. Money has not been the problem, and certainly it hasn't been the problem in the last 5 years.

But if this were the private sector and God were your adviser on buying mutual funds, I think you would be wondering why you were getting such a low return on your investment. I mention this background because, in the future, if you really want only very moderate security at relatively high risk and very high prices, buy the President's defense budget.

On the other hand, if you want lower risk, greater security and more moderate prices I am quite confident that you can get all of those by freezing defense budget authority at 1986 levels over the next 5 years, providing allowances only for inflation. However, at the same time, you would have to insist on a more rational allocation of resources than is now being made.

If you do that, impose what I should call a nominal freeze on the defense budget for the next 5 years, from 1986 through 1991, you will save about $200 billion in budget authority, and about $180 billion in outlays.

Obviously more modest 5-year defense plans are feasible. A freeze in budget authority without any allowance for inflation would probably save $300 billion in budget authority over the 5-year period, and roughly comparable amounts in outlays.

And if something such as the Gramm-Rudman sequestration went into effect during each of the 5 years, a relatively conservative estimate suggests that the President's program would have to be cut by something on the order of $450 billion in budget authority.

I think, however, you have to recognize that going much below what I have characterized as a nominal freeze, while it certainly will help the deficit will entail some risk as far as future security is concerned. Whether such a risk is worth taking is not a decision that I am qualified to make.

I am sure you will be told or already have been told that anything less than the President's defense budget will be ruinous, that his request is an absolute flat requirement. But, there are no requirements in defense any more so than anywhere else. There are alternatives with risks and opportunities.

If I may, suggest that your response to assertions about requirements should be to remind the President of what John Jacob Astor is alleged to have said when the *Titanic* hit the iceberg; supposedly he said, "I asked for ice but this is ridiculous." Thank you

The CHAIRMAN. Thank you very much, Professor Kaufmann.

Robert Gough, we welcome you and invite you to highlight your testimony and submit the rest to the record.

STATEMENT OF ROBERT GOUGH, SENIOR VICE PRESIDENT, DATA RESOURCES, INC.

Mr. GOUGH. Thank you. It is a pleasure to be here to discuss this issue, Congressmen, with you.

Mr. Kaufmann just reminded me also of the fact in dealing with budget issues there are indeed no magic solutions to solve this. As P.T. Barnum said when asked why he was so successful in the circus business, particularly how was he so successful in keeping lions and lambs in the same cage for extended periods of time. He said the answer is very simple. You keep an excess supply of lambs on hand. There really is no magic solution to this issue.

But I would focus on the relationship very quickly between defense spending and the economy. The recent trend is obvious, the reversal of the free decade of defense spending beginning in 1977 or 1978. Defense share of GNP having risen in the last 7 or 8 years, defense share of total Federal expenditures having risen, the key point to note and what I am most concerned about is the appropriate policy mix between fiscal policy and monetary policy.

Obviously it is important to consider the appropriate mix between defense spending and nondefense spending, but in its worse case Gramm-Rudman can be considered congressional robotics and if we allow the Gramm-Rudman bill to be interpreted and left alone to operate on automatic pilot I think it will drive the economy into a recession in 1988 or 1989. That is based upon an econometric model, not necessarily on opinion.

But the appropriate mix between monetary and fiscal policy can go a long way toward mitigating the potential impact of very, very sizable cuts over the next several years to balance the Federal budget.

Pulling out in the area of what Bill calls $36 billion is one thing, year after year, but if you do the arithmetic right you will find that we are actually going to have to cut the budget much more than $36 billion a year because contained within those estimates are very, very optimistic revenue forecasts.

When you have to punch away at the economy to the tune of $50 billion a year over 5 years you are putting the economy, frankly, on thin ice. I think there is a role there for monetary policy to come in and mitigate that impact.

I think the conversation in fact has to be broadened to include that element of policy not just the appropriate mix between defense and nondefense spending. In terms of the highlights of key issues in terms of assessing the impacts of defense spending in the Nation and also in the State of Massachusetts, is to note first that defense spending is approximately equal in its employment impacts to the average mix of economic activity across the various sectors of the economy.

In terms of direct jobs per $1 billion of production, defense programs generate a little over 15,000 jobs, compared with an economy average of a little over 17,000 jobs taking into account multiplier effects.

An overall estimate in 1985 suggests that about 35,000 to 40,000 jobs have been created per $1 billion of defense outlays.

The upshot, I think, is very, very clear, that the employment effect of any type of spending whether it is defense or nondefense depends upon the labor entity of the sector from which the goods are purchased.

If I purchase goods from a high-technology industry I am going to create four jobs than if I purchase them from the retail trade industries because the retail trade is more labor intensive. Because the defense industries are relying on durable manufacturing sector of the country it tends to create therefore slightly few jobs than some other forms of Federal spending in inflation, I think the inflation outlook over the next couple of years is very, very good.

And for the first time, I think in years, the defense deflator, the inflation estimate relative to defense calculations, is actually going to be better than the overall rate of inflation largely because of the impact of lower oil prices over the next few years.

In terms of the deficit, I think that we can say that defense is not a cause nor potential cure of the Federal budget deficit but I think the Gramm-Rudman cuts can go a long way with humanistic elements to correct the deficit along with some compromises both in defense and nondefense areas. Thank you.

The CHAIRMAN. Thank you very much, Mr. Gough.

Kosta Tsipis, director, Program in Science and Technology for International Security, Massachusetts Institute of Technology.

STATEMENT OF KOSTA TSIPIS, DIRECTOR, PROGRAM IN SCIENCE AND TECHNOLOGY FOR INTERNATIONAL SECURITY, MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Mr. TSIPIS. Thank you, sir.

I have a brief prepared statement which I hope won't tax your patience. It is obvious to all of us for example, if you look at firms that invest about 10 percent of their profit in R&D they hold 30 percent of the world market for their products. Firms that invest 3 percent of their profit for R&D hold less than 10 percent of the world market for their products and their share has been shrinking in the 1970's. So there is no question about the importance of R&D for the health and vigor of the private industry. Everybody knows that, and according to the Congressional Budget Office in 1980, the United States spent 2.4 percent of GNP for R&D overall, compared to 2.3 for West Germany, 1.8 for France, 2 percent for the British, and 2.2 for Japan.

Now, given that United States GNP is so much larger than these other countries, it would seem that advantages of scale should favor the United States. Yet our monumental deficit indicates that all is not well with our R&D programs. It is my belief that part, at least, of the problem lies in the shift of the Federal Government research and development priorities since 1980.

As late as 1980, 65 percent of the United States R&D were spent in the civilian sector to support the technological innovations that maintained our preeminence in world markets.

Today only 40 to 45 percent of total national R&D funding remains focused on civilian projects, while 55 to 60 percent is spent on defense. There has been a drastic increase in the fraction of Federal R&D funding devoted to the military.

In the 1970's, roughly 50 percent of the Federal and 20 percent of industrial R&D money went to defense. In the 1987 Reagan administration budget 75 percent of all Federal R&D funding is for military projects. The Defense Department share alone is 70 percent, or $41.7 billion, up 20 percent over 1986, which in turn came on top of an increase of 25 percent from 1985, which was up 23 percent over 1984. This represents an increase of 85 percent in just 4 years.

If we add to the Defense Department's $41.7 billion the $2.2 billion of the Department of Energy's R&D budget that is devoted to weapons projects, and the approximately $1 billion of NASA's budget that is related to military needs, we arrive at the fact that fully 75 percent of all Federal R&D expenditures requested by the President for 1987 are intended for military purposes.

As for industrial R&D funds, about 30 percent are now devoted to military projects. These private R&D expenses are also largely provided by Federal funds in the form of overhead charges on procurement contracts through the independent research and development/bid and proposal procedure.

In sum, over 55 percent of all research and development in this country is, or will be, controlled by the military. By comparison, Japan devotes 4 percent of its national R&D to military applications, and West Germany, 8 percent. It is not just coincidence that these are our two strongest competitors in the world markets.

What is wrong with military funding for R&D? What are the most damaging effects of this shift from civilian to military R&D in the last 5 years?

It seems to me the most damaging fundamental effect of this trend is the concentration of control of a large fraction of our national R&D process in a very small group of individuals who by the parochial character of their responsibilities are almost certainly not the best judges of our national technological and scientific priorities.

To makes things worse, the elaborate peer review and open discussion processes characteristic of civilian R&D are completely absent in the R&D activities controlled by the military.

These processes are specifically used to avoid mistakes that can result from poor judgment on the part of one or a few people, mistakes which can have long-term disastrous effects. Without them, the country runs the danger of having 50 percent of its R&D resources used in directions that are unproductive or irrelevant to the broader economic priorities, and therefore, de facto mistaken and in poor judgment as far as our national interest is concerned.

A second concern is the diversion of trained research scientists and engineers form the civilian manpower pool, at the expense of the excellence of civilian R&D. Defense research is a form of Government consumption. The Government does the research that it wants and needs, rather than research that can be broadly used by the private sector.

And in so doing, it consumes scientists and engineers who could be doing civilian research. If this consumption of the technically trained is not to have an adverse effect on private industry, the Government must take steps toward replacement of the pool, as was done in the 1960's with the National Defense Education Act.

During the Apollo Program, for example, beginning in 1962, NASA sought to add 1,000 Ph.D.'s in engineering to the manpower pool annually. By 1965, NASA was providing training to 142 institutions and supporting more than 3,000 students. The Apollo Program was only 13 percent of all federally funded research in the United States during its peak year in 1966.

Even though the Federal Government is now in effect claiming 40 percent of our scientific and technological research talent, no effort is being made to replace it. Quite the contrary, in fact. Educational support from Federal funds is being reduced, and the private sector is left to fend for itself in a shrinking market of technical manpower.

Since the supply of engineers and scientists in this country is, for the moment at least, not expanding, we must face the fact that increases in military R&D will strip the market of specialists in computers, robotics, microelectronics, et cetera, the very fields civilian industry needs to compete with comparably technically sophisticated countries like West Germany and Japan. The cost of talent increases as a result of scarcity, and consequently the competitiveness of U.S. companies in the international markets decreases. Add to this the high value of the dollar, caused in part by the very large Federal deficits, and you have the U.S. high-technology industry running into barriers that it must face burdened with manpower handicaps, and both problems have been created in large part by the unbalanced allocations of resources by the Reagan administration.

A third bad effect, indirect but not less serious, of the shift in R&D funding toward the military is felt by the universities that are the sources of scientists and engineers.

As money for civilian research is reduced—6-percent reduction in health-related R&D in 1986 and 2 percent for 1987; for transportation research, 9 percent less in 1986 and 24 percent less in 1987; 17 percent down in 1986 and 22 percent in 1987 for R&D on natural resources and the environment—as this civilian R&D funding is reduced, so is the support available to train graduate students, since most universities do not accept classified, military research, and unclassified, defense research is but a small fraction of military R&D.

As civilian research funds dry up at the universities, many of the younger researchers and nontenured faculty are let go. Add to this the fact that the escalating support for military R&D has caused an industry demand for scientists and engineers that has been increasing by 10 percent a year.

This combination drains the university faculties of experienced computer scientists and other high-technology specialists in particular, since these fields are relatively new and the pool of experience is not deep.

Thus, the ability of these educational institutions to produce new technical talent is reduced, not just for today, but for the future. It takes 10 years to train a Ph.D., and like the 9-month gestation of babies or the 30 years needed to grow new trees to replace a cut forest, this is not a process that can ever be substantially speeded up.

One final point. For reasons that I think no one can dispute, it is necessary that much military R&D remain secret. The results and information derived from this R&D also must be classified as "secret."

This tells me that roughly 50 percent of the product of American research scientists is not shared by industry, the university, the public in general. Instead, it is consumed by one branch of the Government, and the economy does not profit from it. Result: U.S. economic productivity fell over the past 5 years. Japanese economic productivity rose by 3 percent. Japan spends 96 percent of its national R&D money on civilian research. For West Germany, the figures are economic productivity up by 2.3 percent; 92 percent of R&D spending is civilian.

The implications of all this seem unmistakable. There have been many nations over the years that were superpowers in their day. Ancient Egypt, Byzantium, Rome, Great Britain. They all lost their supremacy not because they were conquered, but because they declined economically as a result of misguided, internal policies. Their military collapse was not a cause of their demise, but a result of their internal weakness.

In each case, to paraphrase Pogo, they saw the enemy and it was them. Our present national R&D policy makes us a prime candidate to follow that script.

I am grateful for the opportunity to address you today. Thank you.

[The prepared statement of Mr. Tsipis follows:]

PREPARED STATEMENT OF KOSTA TSIPIS

Scientific and technological research constitutes the first, essential step of the process of discovery and innovation that has always been the motor that powers the U.S. economy. If an enemy of the United States wanted to undermine the economic vigor that is the basis of our national strength, he would certainly attempt to arrest our technological innovation, to impede the process of research and development that animates the scientific advances that have maintained our traditional technological superiority among the industrialized nations.

The importance of research and development, or R&D, in maintaining this superiority cannot be overestimated.

As one example, consider the correlation of R&D and market preeminence: according to data from the Congressional Budget Office, U.S. industries that invest more than 10 percent of their profits in R&D, such as electronics, aircraft, office equipment, scientific instruments and chemicals, have been holding steady at 30 percent or more of the international market. On the contrary, U.S. industries that spend around 3 percent of their profits on research and development, like transportation equipment, metal cutting machines and electrical power equipment, hold less than 10 percent of the world market, and their share shrank during the decade of the 1970's.

Mindful of the importance of R&D, both U.S. industry and the Federal Government have supported it vigorously in the past 40 years. In the past 5 years, overall Federal spending for R&D has been increasing by an average of 15 percent a year, and in these same 5 years, industrial R&D funding increased cumulatively by 70 percent. In 1986, U.S. R&D spending surpassed $100 billion, to which Government and industry contributed about equally. Approximately 400,000 scientists and 700,000 engineers are now employed in research and development activities. According to the Congressional Budget Office, in 1980 we spent 2.4 percent of our GNP on R&D, compared with 2.3 for West Germany, 1.8 for France, 2.0 for the British, and 2.2 for Japan.

Given that the U.S. GNP is so much larger than these other countries', it would seem that advantages of scale should additionally favor the United States. Yet our monumental trade deficits indicate that all is not well. It is my belief that part, at least, of the problem lies in the shift of the Federal Government's R&D priorities.

THE SHIFT IN U.S. R&D POLICY

As late as 1980, 65 percent of U.S. R&D resources were spent for the civilian sector to support the technological innovations that maintained our preeminence in world markets. Today, only 40 to 45 percent of total national R&D funding remains focused on civilian projects, while 55 to 60 percent is spent on defense. There has been a drastic increase in the fraction of Federal R&D funding devoted to the military. In the 1970's, roughly 50 percent of Federal (and 20 percent of industrial) R&D money went to defense. In the 1987 Reagan Administration budget 75 percent of all Federal R&D funding is for military projects. The Defense Department share alone is 70 percent, or $41.7 billion, up 20 percent over 1986, which in turn came on top of an increase of 25 percent from 1985, which was up 23 percent over 1984. This represents an increase of 85 percent in just 4 years.

If we add to the Defense Department's $41.7 billion the $2.2 billion of the Department of Energy's R&D budget that is devoted to weapons projects, and the approximately $1 billion of NASA's budget that is related to military needs, we arrive at the fact that fully 75 percent of all Federal R&D expenditures requested by the President for 1987 are intended for military purposes.

As for industrial R&D funds, about 30 percent are now devoted to military projects. These private R&D expenses are also largely provided by Federal funds in the form of overhead charges on procurement contracts through the Independent Research and Development/Bid and Proposal procedure.

In sum, over 55 percent of all research and development in this country is—or will be—controlled by the military. By comparison: Japan devotes 4 percent of its national R&D to military application, and West Germany 8 percent. It is not just coincidence that these are our two strongest competitors in the world markets.

WHAT'S WRONG WITH MILITARY FUNDING FOR R&D?

What are the most damaging effects of this shift from civilian to military R&D in the last 5 years?

It seems to me the most damaging fundamental effect of this trend is the concentration of control of a large fraction of our national R&D process in a very small group of individuals who by the parochial character of their responsibilities are almost certainly not the best judges of our *national* technological and scientific priorities. To make things worse, the elaborate peer review and open discussion processes characteristic of civilian R&D are completely absent in the R&D activities controlled by the military. These processes are specifically used to avoid mistakes that can result from poor judgment on the part of one or a few people, mistakes which can have long-term disastrous effects. Without them, the country runs the danger of having 50 percent of its R&D resources used in directions and that are unproductive or irrelevant to the broader economic priorities, and therefore de facto mistaken and in poor judgment as far as our national interest is concerned.

A second concern is the diversion of trained research scientists and engineers from the civilian manpower pool, at the expense of the excellence of civilian R&D. Defense research is a form of government consumption: The government does the research that it wants and needs, rather than research that can be broadly used by the private sector. And in so doing, it consumes scientists and engineers who could be doing civilian research. If this consumption of the technically trained is not to have an adverse effect on private industry, the government must take steps toward replacement of the pool, as was done in the 1960's with the National Defense Education Act. During the Apollo program, for example, beginning in 1962, NASA sought to add 1000 Ph.D.'s in engineering to the manpower pool annually. By 1965 NASA was providing training grants to 142 institutions and supporting more than 3,000 students. The Apollo program was only 13 percent of all federally funded research in the United States during its peak year in 1966. Even though the Federal government is now in effect claiming 75 percent of our scientific and technological research talent, no effect is being made to replace it. Quite the contrary, in fact. Educational support from Federal funds is being reduced, and the private sector is left to fend for itself in a shrinking market of technical manpower.

Since the supply of engineers and scientists in this country is, for the moment at least, not expanding, we must face the fact that increases in military R&D will strip the market of specialists in computers, robotics, microelectronics, etc.—the very fields civilian industry needs to compete with comparably technically sophisticated countries like West Germany and Japan. The cost of talent increases as a result of scarcity, and consequently the competitiveness of U.S. companies in the international markets decreases. Add to this the high value of the dollar, caused in part by the very large Federal deficits, and you have the U.S. high tech industry running into barriers that it must face burdened with manpower handicaps—and both problems have been created in large part by the unbalanced allocations of resources by the Reagan administration.

A third bad effect, indirect but not less serious, of the shift in R&D funding towards the military is felt by the universities that are the sources of scientists and engineers. As money for civilian research is reduced (6 percent reduction in health-related R&D in 1986 and 2 percent for 1987; for transportation research, 9 percent less in 1986 and 24 percent less in 1987; 17 percent down in 1986 and 22 percent in 1987 for R&D on natural resources and the environment)—as this civilian R&D funding is reduced, so is the support available to train graduate students, since most universities do not accept classified military research, and unclassified defense research is but a small fraction of military R&D. As civilian research funds dry up at the Universities, many of the younger researchers and non-tenured faculty are let go. Add to this the fact that the escalating support for military R&D has caused an industry demand for scientists and engineers that has been increasing by 10 percent a year. This combination drains the university faculties of experienced computer scientists and other high tech specialists in particular, since these fields are relatively new and the pool of experience is not deep. Thus the ability of these educational institutions to produce new technical talent is reduced, not just for today but for the future. It takes 10 years to train a Ph.D, and like the 9-month gestation of babies or the 30 years needed to grow new trees to replace a cut forest, this is not a process that can ever be substantially speeded up.

One final point. For reasons that I think no one can dispute, it is necessary that much military R&D remain secret. The results and information derived from this R&D also must be classified as secret. This tells me that roughly 50 percent of the product of American research scientists is not shared by industry, the university, the public in general. Instead it is consumed by one branch of the government, and the economy does not profit from it. Result: U.S. economic productivity fell over the past 5 years. Japanese economic productivity rose by 3 percent; Japan spends 96 percent of its national R&D money on civilian research. For West Germany the figures are economic productivity up by 2.3 percent; 92 percent of R&D spending is civilian.

The implications of all this seem unmistakable: There have been many nations over the years that were superpowers in their day. Ancient Egypt, Byzantium, Rome, Great Britain. They all lost their supremacy not because they were conquered, but because they declined economically as a result of misguided internal policies. Their military collapse was not a cause of their demise but a result of their internal weakness. In each case, to paraphrase Pogo, they saw the enemy, and it was them. Our present national R&D policy makes us a prime candidate to follow that script.

I am grateful for the opportunity to address you today. Thank you.

The CHAIRMAN. Thank you very much, Mr. Tsipis, and the panel. Let me ask a question before yielding.

As you look at the budget that has been presented to the American people plus the last four budgets prior to that, are suggesting that we are actually losing our security, our strength, because we are investing in the wrong areas and not strengthening the research and economic growth and competitiveness with others on the international scene? Would that be a correct summary?

Mr. TSIPIS. Precisely; what my concern is what you describe, that is, investment in the basic R&D on a national basis is distorted to the point we are losing our economic vitality, losing our technological superiority around the world and therefore we are slowly but assuredly falling behind countries that do not make this, what I consider to be, foolish choice.

The CHAIRMAN. I find that very, very interesting. That comment coming from someone who specializes in international security who seems to be saying that international security is not just simply arms but also our economic strength. I also find the analogy that you used between Germany and Japan very interesting in light of the fact I attended a conference not too long ago—well, 3 or 4 years ago—where I said to one of my counterparts in the German legislature, when are you going to live up to the 1978 agreement of producing 3 percent real growth in security expenditures; and he looked at me with some astonishment and said, "Are you serious? And cut back on vital domestic investments?"

Mr. TSIPIS. Precisely.

The CHAIRMAN. That sort of agrees with what you have been saying.

The gentleman from Massachusetts, Mr. Atkins.

Mr. ATKINS. Thank you, Mr. Chairman.

Professor Tsipis, could you give us your view as to the civilian spinoffs of so-called Star Wars, the President's strategic defense initiative?

As I am sure you are aware, the Pentagon has established a specific Office of Civilian Applications, and they are pointing to vacuum-dried foods and velcro, for instance, as things generated in the past from military R&D that have had enormous implications in the civilian economy.

What is your sense as to the kinds of output that we will get from that Star Wars investment in the civilian economy?

Mr. TSIPIS. Let me divide my answer in three.

First of all, when you are trying to develop a good bathroom faucet you don't start building a house in the hope that eventually you come to the bathroom faucet and you will spend money developing it.

When you want to develop something you don't spend money for R&D in the military sector hoping for a spinoff that you want in the civilian sector.

No. 2, most of the examples that are being presented to us as military spinoffs are not military spinoffs. They are NASA spinoffs. That is significant because NASA is not classified work while the military R&D is classified. The small, portable computer, the freeze-dried food, whatever, is all NASA research and development, which is not classified and therefore it is available in the civilian marketplace of ideas to pick up and use in the process of building a new product.

Third, I have been thinking hard about what the spinoffs of Star Wars could be if ever this voodoo science we are being faced with materializes. I have great difficulty finding one. For example, very large powerful lasers are being used in industry and I don't see why we would need new ones, except for one kind, the free electron laser, which may be useful. The computers needed for R&D would be too bulky, too slow, and too expensive for the civilian market.

Why shift technology when you are doing well with electronic rather than photonic computers? I find the new materials will be required for Star Wars. But I would expect new materials to be developed much more efficiently, as they have been as a matter of fact in the civilian sector rather than in the military R&D.

All the microelectronics we are looking at were not pushed by military R&D but they were pulled by civilian need that promoted an advancement in mocroelectronics to the point we know them. I see this as one more hoax, I am afraid, Congressman, that Star Wars is going to provide us with spinoffs that are useful.

AVAILABLE

Mr. Atkins. Professor, if you look at the trillion dollar investment that we have made in national defense over the last 5 years, can you think of any significant results from the portion of that that was Pentagon R&D that have enhanced our economic productivity or created things that were useful in the civilian economy?

Mr. Tsipis. I am not aware of one but again, I may have missed it. Clearly they are so few.

Mr. Atkins. But this is your field to look at this kind of thing, and you are telling us that in your professional judgment looking at $1 trillion investment which has been approximately how much of that trillion would be Pentagon R&D?

Mr. Tsipis. About 10 percent roughly.

Mr. Atkins. About 10 percent so we are talking about——

Mr. Tsipis. $100 billion.

Mr. Atkins. $100 billion in Federal investment over 5 years in research and development and you as somebody who spends his professional life looking at these things cannot think of a single civilian application that has come out of that $100 billion investment.

Mr. Tsipis. You are right, Congressman, I cannot think of anything over the last 5 years that could be used for our national civilian economy.

Mr. Atkins. You raised the question of what happened over the last 5 years to our economic productivity in the United States versus Japan and West Germany. Could you give us your professional estimate as to what the productivity, our relative productivity with the Japanese and West Germans would have been had that $100 billion been invested in the civilian side in R&D? What would our productivity look like?

Mr. Tsipis. Since we started ahead of them and since our GNP is so much larger than theirs and since we are spending about the same percentage of GNP for R&D, I would expect that if our R&D effort were focused in the civilian sector it would have done wonders for us, because we are ahead, we have a much larger pot of money to spend on R&D, and, therefore, since we have in the past done extremely well in the civilian sector I would expect that our productivity would have increased at least comparable to what West Germany and Japan have done with a much smaller pot of money.

Mr. Atkins. Thank you. I would ask Professor Kaufmann if you could give us an indication, one of the things the President has used really as a cornerstone in the Pentagon buildup over the last 5 years is the claim that the percent of the gross national product of this country that goes toward Pentagon expenditures is less today than it was when John Kennedy was President.

Is that a reason, in your judgment, that we should be increasing our defense expenditures or is that an erroneous kind of analogy to be looking at?

Mr. Kaufmann. I think, sir, that one of the worst measures you can possibly use to determine the adequacy of the defense budget is its percent of GNP. Nobody uses it internal to the Pentagon. You try to determine what kind of forces we need and what their costs will be. Done systematically, it is a more rational method than asserting that defense should receive a fixed percentage of GNP, especially when GNP keeps growing, and indeed has grown a great deal since the early 1960's. Furthermore, would the Joint Chiefs agree to a reduction in the defense budget if the GNP declined? One doubts it. I think these comparisons are meaningless.

Mr. **Atkins**. Thank you.

The **Chairman**. The Chair recognizes the gentleman from Montana, Mr. Williams.

Mr. **Williams**. Thank you, Mr. Chairman.

There is a myth that has been promoted in the past 5 years and that is that if any Member of the Congress, or I guess member of the public, doesn't agree with the President's precise defense recommendations, you are antidefense. That is all it is, a myth.

I have never met an American that didn't want a first class, A No. 1 defense for this country. There are no Members of Congress that want a second-rate defense or if they do they neither vote nor talk that way, either publicly or privately.

In the next decade when we think back on these times with respect to Pentagon spending, I think our memory will be one of having written blank checks for the Pentagon, and attending a lot of funerals. That is what Americans have been doing throughout this decade, going to funerals and writing blank checks.

It is because of incompetence at the Pentagon that every family in Massachusetts pays $25 a year for leaving our men naked to terrorism, and it isn't just in the past 5 years by the way, that in my judgment, this incompetence has gone on.

We really need, and I will not take the time of the hearing, Mr. Chairman, but we really need a genuine, legitimate, full housecleaning of reform at the Pentagon which is right now composed of three bureaucratic fiefdoms, and I can tell you as one member of the Budget Committee my opinion, of course, is that the budget that comes to us from the Pentagon does not reflect the defense needs of this country. Rather, it reflects the political winners in each of these three fiefdoms, Army, Navy, and Air Force.

And the political winners are costing you a fortune. The Air Force has an army, the Army has an air force, the Navy has an air force, and you are paying for three of each in each fiefdom.

This has resulted in an extremely inefficient, expensive, defense system which has weakened America's ability to respond militarily. That is why we have all these failures.

And some day somebody is going to run for President who really, truly has a good matter of reforming the Pentagon's budget and then, as President, is going to get the Congress to agree to do it. That person is going to go down in his industry as a great President, because they are going to save a fortune and we will end up with a far better Defense Establishment than we have now.

That is not a question, Mr. Chairman, but I couldn't resist saying it.

The **Chairman**. The gentleman from Massachusetts, Mr. Markey.

Mr. **Markey**. Thank you very much.

I would like to begin by asking professor, how much will Star Wars wind up costing if it is fully deployed?

Mr. **Tsipis**. It is such a diffuse concept at this stage of the game that we don't know.

Mr. Markey. If you were going to build an invisible shield over the United States to protect it against nuclear war, how much do you think it would finally—give me a ballpark estimate. It doesn't have to be binding, it can be Yellowstone Park, just a rough ballpark.

Mr. Tsipis. Maybe estimates of $1 trillion over 10 years.

Mr. Markey. $1 trillion over 10 years.

Mr. Tsipis. Yes.

Mr. Markey. Do you think that President Reagan is factoring in this $1 trillion program when he is talking about balancing the budget by 1991, or is he talking about totally unbalancing it, then a couple years later then they go to the full investment in Star Wars necessary to reach the deployment?

Mr. Tsipis. Congressman, I very much doubt whether President Reagan understands what Star Wars really means in terms of our financial situation. I think it is a dream that has no price as Mr. Weinberger told in hearings in the House. Therefore, it is very difficult for anyone to speculate whether the President thinks seriously about this, and factors it into the economy or not.

It would seem to me that it would be an extremely difficult exercise in economic acrobatics to maintain the budget, even at the deficits that we are sustaining now and at the same time, pursue development and deployment of Star Wars.

Research in Star Wars is reasonably inexpensive as we have seen. It is just a few billion a year, 10 or 15 percent of the research budget. But if that trend continues and if we allow this research to go on into preliminary development, then the sums of money will escalate drastically and you will be talking about $10 or $15 billion a year, just doing research and preliminary development.

Mr. Markey. Eventually we might be talking about $100 billion a year over a period of years at the point at which we are in full deployment of Star Wars.

Mr. Tsipis. That is the number that has been bruited around, about $100 billion a year over certainly a decade or more, trying to put that thing up in space.

Mr. Markey. Of course it would probably be foolhardy for us to cut back on offensive weapons in view of the facts that the Soviets will be massively upscaling offensive weapons to serve as a hedge against the potential that the Star Wars system could work effectively.

Mr. Tsipis. It would be foolhardy for two reasons. No. 1 is the reason you just mentioned, No. 2, no matter what we do with Star Wars, the deterrence will remain the strategy that will protect us from a nuclear attack.

Therefore, you would have to keep on building weapons systems after taking care that deterrence remains robust, which means you would have to be paying additional funds of money.

Mr. Markey. So, in addition to the already existing commitment we have to offensive weapons, by the middle or late 1990's we would be adding in an additional $100 billion a year program that would have to, if the President—and the country is committed to a balanced budget, come from something which would mean domestic programs?

Mr. Tsipis. It will have to come from either domestic programs or worst, from the military budget that is now as far as the tactical conventional forces are concerned, is being crippled drastically and dangerously.

Mr. Markey. So, even as he is talking about balancing the budget by 1991, he is investing in a program which has relatively modest up-front payments, but a tremendous baloon payment at the end as we go to the deploymnt which could be upward of $50 or $100 billion a year additionally coming out of the budget?

Mr. Tsipis. That is precisely correct.

Mr. Markey. Can you give us some view as to what the consensus is in the scientific community as to the potential of the Star Wars program working as the President envisions it?

Mr. Tsipis. The scientific community believes it is absolutely impossible, and I use this word even though people shy away from it, to develop a defense that will protect populations, cities, our industries, and so on. Therefore, the President's vision is a technological dream. It is voodoo science. And the tragic accident of the *Challenger* has reminded us that technology is not a domesticated animal, it is demanding, exacting and unforgiving, and therefore you cannot take it for granted and believe if you can imagine it, you can technologically implement it.

Therefore, most people believe that this is impossible.

Mr. Markey. Our area has benefited from defense spending but I think there is a common misperception and I think the gentleman from Data Resources has touched on it, and maybe you could and he could as well again, which is the notion that the defense spending is job-creating and as a result, something that ought to be encouraged with I think the mistaken understanding that it is more job-intensive, more labor-intensive than civilian spending would be.

I think that is something you should discuss briefly if possible, to explain the distinction between money which is spent on defense spending in terms of its labor-intensity as opposed to other types of programs on which the same amount of money could be spent and create the total number of jobs for the society to the same extent.

Mr. Grough. Defense spending creates about the average number of jobs as any other type of public sector spending, Congressman Markey. As a matter of fact, slightly below average.

The service sector is very labor intensive but the defense industry draws little from there. The durable manufacturing area is much more high technology, therefore defense spending which draws heavily on that sector does not consequently create as many jobs.

So, I would rank defense spending perhaps as slightly below average in terms of employment generating properties. Personally I don't think that is the issue that we should focus on in terms of why we should spend money for national security.

Yes, Massachusetts has in fact benefited——

Mr. Markey. If I may interject, it should be, but unfortunately it does interject itself as a rationale on the floor of the House and in the public at large.

Mr. Grough. Yes, and that is very unfortunate.

Mr. Markey. I agree with you.

Mr. **Grough**. It should not be used as rationale for defense spending.

Let me just interject something here. I think that we invest in national defense spending for national security purposes. I agree, for example, with the statement of Congressman Williams that the Pentagon does need some revamping but I think it is very dangerous to make statements, for example, to the effect that the U.S. dollar is strong because defense spending is strong or because the deficit is as huge as it is. It contributes to it.

U.S. productivity is indeed lower than most other industrial nations including Japan and Germany. But it is not because defense spending is high. It is important because of other reasons.

Private R&D is not as large a share of capital spending because defense related R&D is high. Those are totally separate issues. There is no professional evidence that suggests that defense spending has taken away from private R&D efforts. I think it is a totally separate question.

Mr. **Markey**. Thank you. Professor, just briefly.

Mr. **Tsipis**. The defense spending I think is wasteful and counterproductive in the sense that because there is no program management, no peer review, there is no discussion and so on so that you have companies using principles of production and development that are really unacceptable in the private sector.

Therefore, we have companies becoming administratively and technologically flabby by maintaining a steady diet of defense contracts. Many companies I think will find it extremely difficult to return to the civilian sector. That is exactly why there is this push to maintain military R&D.

The issue of private R&D in this country is about the same as Federal R&D and private R&D has shifted from about 20 percent for defense purposes to about 30 percent for defense purposes and while Federal has shifted 50 to 75 percent. So the net effect if we take the entire R&D of the country is that we have shifted from 40 percent R&D for defense to 60 percent. That is in my mind a very serious kind of trend that indeed affects the productivity of the country overall.

Mr. **Markey**. Thank you.

Mr. **Williams**. Will the gentleman yield?

Mr. **Markey**. I would be glad to yield.

Mr. **Williams**. Two weeks ago I spoke with one of the three or four leading industrialists from Japan, probably the best known in America, although we were talking privately so I won't use his name, but we were talking about the underlying reasons for the trade imbalance and he said, "You know publicly we tell you it has to do with the dollar to the yen; we tell you it has to do with interest rates; or with the American deficit. All of those are important, but," he said, "there are two things we have not talked about to Americans and they are critical to Japan's ability to outcompete with you with regard to technology.

"First, your antitrust laws allow and in some instances," he said, "encourage the swallowing of small innovative companies by larger less efficient companies. And second," and he used your terms, Professor, "you allow the Defense Establishment to consume too much of your innovation and the knowledge from it and you fence it off and won't allow it to go back into the private sector."

If this gentleman is correct, then it seems to me that there are a couple of things going on in this country that if Americans don't wake up to and change, we may never be able to fully compete as a leading industrial nation in certain segments of the economy that are so important to our future.

Mr. **Markey**. If I might follow up on the point you make, I spent 1 week in Japan this fall and 1 week in the Soviet Union, and upon my return, I am convinced that the Japanese have a greater likelihood in the near term of devastating the Route 128 Highway Belt around Boston than the Soviet Union does with its nuclear weapons.

They are pouring all physicists and chemists and Ph.D.'s in math and computer scientists in developing new refrigerators and stoves and toasters that will be three and four times more energy efficient than the products we make here and around the rest of the country.

And although we are trying, I think by construction of the MX and SDI to protect the country and the President may be well intentioned in doing it, by the drain of resources, natural and human, out of the quest for development of consumer products that do create new jobs on a recurring basis year after year, we are going to lay ourselves open to being exploited not just by Japan but by Korea and many other trading rivals that we have who will take advantage of the fact that our best minds are not working on developing the new refrigerators and stoves and VCR's but on how to develop a pinpoint accuracy missile to the pinpoint of the Kremlin on a scenario so lunatic that we both miss the point that both countries will be unprotected by investing in civilians.

In the course of this year, I hope we can have the debate that helps us understand what makes this country as strong as it is and we won't see it systematically undermined by having diversity of resources more and more disproportionate into the areas of the economy that don't see long-term generation of jobs that make us strong.

I would like to compliment Chester Atkins for bringing this committee to Lowell, to Massachusetts. I think it is a valuable service which he provides for Massachusetts and for the country in having this public discussion and airing of issues that have long-term effects upon our citizens.

I would like to thank you, Mr. Chairman, and you, Mr. Williams. I know it is a difficult trip for you to make this week that you could otherwise spend back home in your district.

I would like to finally apologize for my tardy arrival. I started at 5:30 from Washington, but unfortunately 1 inch of snow in Washington sent it into a state of paralysis and by the time I arrived here from Washington, I was unfortunately 1½ hours late.

So, I thank you and compliment you for your work.

The **Chairman**. Thank you, Mr. Markey. And thank you to our colleague who is a member of the committee, Congressman Atkins, who invited us here.

Certainly we have come here to hear a different point of view and we have heard a different point of view. We heard a point of view that said, "Yes, we are doing fairly well. We are doing well because we came up with creative ideas at the Government level to deal with the revenues." Your Governor and your mayor shared that with us.

Also, we heard that one of the reasons why this area is growing and prospering is because of a partnership that worked, UDAG's, EDA grants. We also heard clearly and loudly that we have to continue the success story of Lowell and Massachusetts and have it spread to places like Philadelphia, San Diego, and Aberdene, and San Antonio and Tallahassee and Butte, MO, as Mr. Williams would say.

So, we didn't come here just to hear negative comments about the President's budget, we also came to get some suggestions about how you did it and what makes it work. Then that we can go back and make those decisions as to how we will reduce this deficit so we don't throw the baby out with the bath water.

You have helped us by sharing with us what helped you to be successful.

I am deeply sorry that my Republican colleagues saw fit not to attend. They were all invited, every member of this committee, the Budget Committee, and also every member of this State's delegation. But unfortunately, for whatever reason, they didn't think this field hearing was important. We think it is important. We think it is important to go out on the Main Street of America to get the views of American citizens. We think it is important because when you try to make decisions on $1 trillion budget, a little extra effort to hear from people who are outside the Beltway of Washington, DC, is extremely good and refreshing for Members of Congress. Therefore, when we go back and make the decisions, make the cuts, we will know where to cut and where not to do it.

I want to thank all of you in this community. I want to thank all of you in Massachusetts for allowing us to come and have our hearing, and we have gained great insight.

I want to also say to those who have not been able to testify that we will leave the record book open. You will have 5 days to get your testimony to the office of Congressman Atkins so it will be a part of the printed record and the proceedings of this field hearing.

We want to again thank all of you. This hearing is adjourned.

[Additional material submitted for the record follows:]

PREPARED STATEMENT OF LAWRENCE S. NANNIS OF JOHN J. HURLEY & CO., INC., CERTIFIED PUBLIC ACCOUNTANTS

I would like to express my deep concerns from both a professional perspective and as a director of the Smaller Business Association of New England and the chairman of the Advisory Council of the Massachusetts Small Business Development Center to the recent budget recommendations by President Reagan who has seen fit to disregard the important role which small business plays in the economy by eliminating the only agency in government which is a voice and advocate for small business, that being the United States Small Business Administration.

The SBA is the only federal agency which expends all of its efforts on behalf of the most vibrant and important part of our economy, that being small business. When one reviews economic development policies, particularly in Massachusetts, in those areas which have not had the opportunity to experience economic growth and prosperity, one sees a tremendous amount of emphasis being placed on the strengthening of its own economic base, by creating the infrastructures for new ventures to grow and prosper from within. The importance that the locally based small business owner plays has been identified as a key component of a sound economic revitalization strategy.

As David Birch of MIT has found through his research during the period from 1969-1976; two-thirds of all the new jobs created in this country were created by firms with less than 20 employees. More specifically, in the Northeast, all net new jobs created during that time period were created by firms with less than 20 employees. This was based on data from 5,000,000 firms in the country. Additionally, an update to Mr. Birch's report indicates that in the period from 1982-1983 3,000,000 new jobs were created in this country, all by firms of less than 20 employees, while the Fortune 1000 firms lost over 300,000 jobs. Thus, if we are to provide economic prosperity to all of our citizens, small business is going to play a very inportant role.

Over the 33 years of the SBA, it has fulfilled its role as being the support to small business. In the first 28 years, until 1980, little help or assistance was given to small business by any state or local government. SBA was the only game in town. However, through the revitalizing of its Office of Advocacy and due to the changing economic world, more and more states have joined in a partnership with SBA to support small business. In those 33 years a very solid record of accomplishments has been developed.

- The 7(a) Guarantee Lending Program has resulted in 500,000 small business loans, a majority of them long-term, totalling $36 billion. These loans helped fill a well documented long-term credit gap for small businesses.

- SBA, through its Small Business Investment Company (SBIC) and Minority Enterprise Small Business Investment Company (MESBIC) venture capital programs, provided $2 billion in equity capital to 70,000 small businesses, creating 250,000 jobs.

- SBA, through its 503 Development Company Loan Program, provided $703 million in economic development loans, generating 100,000 jobs.

- Management assistance programs, including Small Business Development Centers, Service Corps of Retired Executives (SCORE), Active Corps of Executives (ACE), and Small Business Institutes, have counseled or trained more than 3 million entrepreneurs, teaching them essential management skills, without which many businesses fail.

- The Surety Bond Guarantee Program, enabling small contractors to obtain the surety bonding required to bid on almost all federal, federally-funded, and private construction contracts, has guaranteed 166,000 surety bonds, permitting the award of $12.9 billion in contracts.

- Pollution Control Bond Program has provided small firms with an important source of capital as they seek to comply with mandated environment standards.

- Procurement programs have helped to direct $118.4 billion in federal contracts to small enterprises, $52.3 billion having been achieved through small business "set-asides," and $75.2 billion in subcontracts since 1980.

- SBA's 8(a) program brings minority contractors into the economic mainstream through participation in the federal procurement process. During FY 81 through FY 84, 19,115 Section 8(a) contracts were awarded totalling slightly less than $10 billion.

- The SBA is the only agency in the Executive Branch whose sole mission is to promote and assist our nation's 14 million small concerns. This sector accounts for 97 percent of all new businesses, and annually creates over 80 percent of all net, new jobs. Small enterprises have been effectively represented by the SBA Administrator and the Office of Advocacy through many activities, including issuance of The State of Small Business: Report of the President, establishment of a small business economic data base, establishment of a toll-free phone line to answer small business questions, sponsorship of state and local legislative issues conferences and planned participation in the White House Conference on Small Business.

- The recently created Small Business Innovation Research (SBIR) Program, which the SBA oversees, resulted in 11 federal agencies making research awards to small research and development companies totalling $416.5 million.

Of the numerous accomplishments which I have just listed I would like to highlight two, those being the very significant importance of management assistance and SBA's ability to provide flexible long term financing so badly needed for small businesses.

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First, I would like to discuss management assistance. Studies done, particularly by Dun and Bradstreet who follow business failures very closely, indicate that better than 80% of businesses fail not because of lack of financing, but because of the inability to properly manage their business through the startup phases into growth phases. The issues of cashflow, marketing, advertising, bookkeeping, payroll, insurance, production, personnel, etc. are difficult for one or two individuals to manage adequately. The Congress, in cooperation with the SBA, has supported management assistance through a number of programs which I have previously mentioned. One in particular, however, is the Small Business Development Center program.

The SBDC program, which receives only 50% of its funds from the federal government through the SBA and receives a cash match from state government through the Massachusetts Department of Commerce, as well as solid backing and support from a consortium of academic institutions lead by the University of Massachusetts at Amherst and including Boston College, Salem State College, the University of Lowell, Southeastern Massachusetts University, Clark University, and Roxbury Community College has provided assistance to 10,000 small businesses in the short span of only 5 years. Quality assistance utilizing full-time counselors who are supported by faculty and students, and private consultants such as myself, are brought together to assist small busineses in better understanding their business.

The accomplishments of the SBDC program are supported in Massachusetts by the following impact surveys of clients from 1980-1983 who had received at least 5 hours of counseling from the SBDC program. Those clients indicated the following: 75% of the clients increased their sales, amounting to over $100 million in new sales; 58% increased their profits, amounting to $20 million in additional profits; 38% increased employment. This activity resulted in the generation of $15 million in new state and federal taxes, and when compared with each dollar spent on the Massachusetts Small Business Development Center program during that same period for counseling and the administration of the program, $10 of new state and federal taxes were generated. I submit to you that there are few programs which can show that kind of return.

With good sound management advice companies can then seek more appropriate financing to assist their company's success. Again, SBA plays a critical role. It is not a question of funds being available, the more important factor is the terms on which the financing is secured. If the terms are not right then this will significantly hinder the ability to obtain the kind of cashflow which is so desperately needed in a company's early stages.

SBA has played an important role in small business development by providing the kind of long term financing needed. In a review of this situation by the General Accounting Office, it identified that small businesses have faced extreme difficulties in obtaining long term financing for the last 50 years, and that the SBA's Guaranteed Loan program has

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filled this gap and has been small business's answer to long term financial needs. Through the guaranteed program SBA has increased the number of long term loans provided by other financial institutions. When GAO sampled 60% of all commercial banks in this country, 13% of all the outstanding loans were SBA. 74% of those SBA outstanding loans were of a long-term nature, or greater than 6 years, where only 15% of their non-guaranteed loans to small business were long term and 82% of those commercial banks responding said they would not have made those loans with those terms had it not been for SBA guarantee. I think it is clear that these guaranteed loans play an important role for those companies. When SBA was criticized last year for not reaching a greater number of small businesses through its guaranteed loans, it should be noted that only 1/3 of the 14 million businesses in this country will ever seek debt financing and that if one looks back over the history of SBA over 500,000 guaranteed loans have been provided.

Small business is an important part of this country and this administration cannot walk away and turn its back on it. The time is now to act. The agency in the past five years has experienced over an 80% reduction in funding and yet has provided programs such as the SBDC, whose return on investment is substantial. It has also created such participating programs as the 503 program and SBIC, it has encouraged more private sector involvement, it has become lean yet effective and has done its part in deficit reduction.

PREPARED STATEMENT OF JAMES C. SMITH, CITY MANAGER, CITY OF CONCORD

This testimony concerns the Administration's proposed budget reductions in the Community Development Block Grant (CDBG) Program.

The Administration is proposing impounding $500 million in CDBG funds in addition to the 10 percent reduction which the Program has already experienced in its fiscal year 1986 budget and the additional 4.3 percent that may result from the Gramm-Rudman legislation. It is my understanding that the deferral of the $500 million will be sustained indefinitely unless Congress passes a resolution of disapproval.

The City of Concord urges the Committee to reject this impoundment of CDBG funds. The Administration's proposal combined with the cuts which will be effected under existing legislation would result in a decrease of *30 percent* in the CDBG budget. This reduction threatens to decrease the level of funding to small cities to a point where cities will no longer be able to administer programs which are effective in meeting the basic housing needs of low and moderate income families.

Over the last several years, the Community Development Program has assisted over 300 low and moderate income families in Concord to remain in their homes and improve their living conditions. Community Development funds have been used to eliminate health and safety hazards and improve the energy efficiency of housing units in which low and moderate income families reside. Thanks to this Program, these housing improvements have been made without resulting in corresponding increases in the rents which the families must pay. Without the assistance from the Program, rents for the improved units would increase beyond the financial means of the existing tenants causing these low and moderate income families to be displaced.

In the same neighborhoods in which we are expending Community Development funds, privately financed improvements are being undertaken in comparable housing units. However, rents for these rehabilitated housing units are far in excess of the HUD determined Fair Market Rent which sets the maximum rents that can be charged for housing units assisted through the City's CDBG Program. The working poor can not afford these inflated rents. With the proposed cutbacks in the Community Development Program, more low and moderate income families will be displaced and many of those families will be unable to find affordable housing.

In addition to improving the existing housing for low and moderate income families, the City has used its CDBG funds in the last year to expand the Emergency Housing Shelter and to renovate a dilapidated structure into a shelter for victims of domestic violence.

Clearly CDBG funds have been effectively used in this City as in many others to help meet the needs of low income families for safe and decent housing.

The CDBG Program is one of a now very limited number of programs which can help preserve and stabilize rental housing for low and moderate income families. Production of new housing for low and moderate income households has already vastly declined as incentive financing programs have been reduced or eliminated. At this time, cities like Concord cannot hope to meet the demand for moderately priced rental housing through either the construction of new housing units or the rehabilitation of existing structures. The financial resources needed for these efforts are simply not available.

With limited resources, the City of Concord strives to stabilize and improve the housing stock which is currently available to low and moderate income households in order to help stem the tide toward converting this housing stock in higher priced condominiums or commercial space.

The CDBG Program is one of the few tools left which helps cities preserve the existing housing stock for low and moderate income families. This Program, having already experienced substantial budget cuts, is slated to have $500 million of its appropriation deferred.

The City opposes the impoundment of these funds and respectfully requests that you oppose the proposal when it is presented.

Your consideration of this matter is greatly appreciated.

PREPARED STATEMENT OF CARLTON M. VIVEIROS, MAYOR, CITY OF FALL RIVER, MA

I appreciate this opportunity to submit testimony on how the proposed fiscal year 1987 federal budget will affect the city of Fall River. I commend you and the others on your committee for your time and effort to carry out this process across the country.

I would like to discuss three areas of utmost concern: the administration's proposed fiscal 1987 budget, the administration's plan to defer monies for key programs, and viable alternatives for reducing the federal budget deficit not widely discussed in Washington.

If we adhere to the adage that a culture's greatness can be measured by the way it treats "the least" of its members, future scholars may well pinpoint 1986 as the beginning of the decline of the great American culture.

Because, despite the cries to the contrary, the disadvantaged will be deeply affected by the proposed budget and the administration's plan to defer fiscal year 1986 funding for Community Development Block Grants (CDBG) and Urban Development Action Grants (UDAG).

A good portion of Fall River's Community Development Block Grant monies, in fact the highest amount allowed under federal law, goes into providing medical, nutritional, educational, legal, and other important social services to those of low and moderate income, the elderly, the unemployed, minorities, and other disadvantaged persons.

Under the administration's budget and deferral plans, these vital services could be reduced by at least thirty percent and, in some cases, could be totally eliminated.

What do we tell a poor mother when her children are ill—sorry, but we can't afford to help them get better?

What do we tell a senior citizen confined to bed—sorry, but we can't afford to help you meet your nutritional needs?

Who will want to explain that Congress appropriated the funds and the President signed the bill a few short months ago that would assure the continuation of these services—only to have the administration try to take back $500 million under a deferral action? No one should have to explain because the deferral should not be permitted to occur and Congress is being strongly urged to make sure it does not.

UDAG is another vital program to communities. It is targeted for elimination because the administration believes it hasn't "done the job." Tell that to the thousands of Fall Riverites who owe their jobs to the program.

UDAGs have been an essential tool in our effort, and the efforts of communities across the nation, to stem the tide of decline. UDAGs have been integral to the rebirth of communities that just a few years ago had dismal futures. Fall River's downtown, for example, was practically dead until we began utilizing UDAGs in the late 1970s. Today that area is experiencing the opening of businesses.

The battle for CDBG, UDAG, and, indeed, revenue sharing, is indeed a quality of life battle. The question is—is it an American priority to help the disadvantaged? Is it an American priority to create and protect decent jobs?

The administration's actions have a laudable goal—the eventual elimination of the federal budget deficit—a deficit which is creating an economic crisis (and thus a human crisis) on the local, state, national, and international level. I agree—steps must be taken and hard decisions have to be made. However, I disagree with the steps that are being taken and the decisions that are being made by the administration and some members of Congress.

I believe a more rational approach should be taken.

First of all, before cutting vital programs and/or raising taxes the Congress and the President should take steps to eliminate waste in current programs. If there's waste in the military—cut it. If there's waste in welfare programs—cut it. Let's eliminate the embarrassing stories of over-priced military parts and welfare cheats.

Second, the Congress and the President should work together to translate the Massachusetts Revenue Enforcement and Protection Program to the federal level. It's common knowledge that there are billions and billions of dollars of uncollected taxes. Billions and billions of dollars that could fund vital programs.

Are these ideas, as one leading congressman told me, on the "back burner"? It seems to me that since we are deciding upon the quality of people's lives anything and everything of merit should be on the table.

I would like to thank Congressman Barney Frank, Senator John Kerry, and all the others who have been defending vital domestic programs from those well-intentioned people who believe the federal government should do little more than provide defense and deliver the mail.

Important decisions will be made in the next few weeks and months. Decisions which will determine the quality of life for many Americans. Decisions which could affect our culture's standing in history.

PREPARED STATEMENT OF THE COMMONWEALTH OF MASSACHUSETTS BOARD OF LIBRARY COMMISSIONERS

OPPOSITION OF PRESIDENT REAGAN'S 1987 BUDGET PROPOSAL ELIMINATING FEDERAL FUNDS FOR LIBRARIES

Chairman Gray and Members of the House Budget Committee: President Reagan in his fiscal year 1987 budget recommendations to Congress proposed the elimination of funding for the Library Services and Construction Act (L.S.C.A.), a federal source of library funding. L.S.C.A. funds are administered through the U.S. Department of Education's Office of Educational Research and Improvement. The fiscal year 1986 allocation of L.S.C.A. funds for Massachusetts is $2,423,935.

Libraries exist to provide every resident with equal opportunity of access to that part of the total information resource which will satisfy individual educational, working, cultural and leisure-time needs and interests, regardless of individual location, social or physical condition, or level of intellectual achievement. The Library Services and Construction Act first authorized by Congress in 1956 has had tremendous impact on the quality of library services provided by States and communities throughout the United States. Because of the scarcity of resources on the State and local level, Federal funds are necessary to initiate and supplement programs for those people with physical disabilities, who are functionally illiterate or live in areas without library services or adequate library services. These Federal funds are not used to replace local or State responsibility.

The Commonwealth of Massachusetts has a tremendously successful L.S.C.A. program administered through the Massachusetts Board of Library Commissioners, the State library administrative agency. Massachusetts is the recipient of Title I, Title II and Title III L.S.C.A. funds. Projects are developed on the local level with emphasis placed on determination of needs of services or book collections by the community. Title I funds provide special library services to the disadvantaged, elderly, handicapped, institutionalized and the illiterate. Funds are also used to strengthen the State library agency in its efforts to provide services and programs statewide. Title II funds are for public library construction and renovation projects including making many Massachusetts libraries accessible to the handicapped and elderly. Title III funds improve interlibrary cooperation among all types of libraries such as developing automated resource sharing networks which greatly expand the resources available to a community.

For example, Massachusetts has successfully administered programs in literacy, building construction and interlibrary cooperation, such as follows:

TITLE I: QUINCY LITERACY PROJECT

Funded with $16,185 in L.S.C.A. monies, the Thomas Crane Library in Quincy, MA is an outstanding example of a successful volunteer literacy tutoring project. An estimated 20 percent of the population in Quincy 25 and older have not completed a high school education. This project provides one to one tutoring for those individuals whose reading level falls below the fourth grade and are thus unable to enroll in a program of adult basic education in a classroom setting.

TITLE II: MILFORD TOWN LIBRARY

The new Milford Town Library recently opened its doors to an excited populace. The new facility is approximately ten times larger than the building it replaced and was constructed with $512,200 L.S.C.A moneys and over $2 million in local funds.

TITLE III: C/W MARS

In Central and Western Massachusetts, L.S.C.A. funding of about $1 million over 5 years has been used to create and expand a computer based resource sharing consortium to store and access bibliographic information for nearly 1.5 million people. C/W Mars includes 36 academic, public and special libraries with nearly 4 million books available to residents through interlibrary loan.

The Federal Government has played an important role in the development of library services in the United States. Without these L.S.C.A. funds these projects would not occur. We sincerely hope the Congress of the United States will continue to support federal funds for libraries.

Prepared Statement of Hon. Theodore D. Mann, Mayor, City of Newton, MA

I am aware that you are and have been a stalwart supporter of domestic programs including the Community Development Block Grant (CDBG) Program. As you know, the Administration is attempting to short circuit the Congressional budget and Gramm-Rudman processes by imposing drastic additional cuts to the fiscal year 1986 HUD and other domestic budgets through deferrals, program terminations, and formula changes. I believe that there is another mechanism which should be employed by Congress to make up the deficit and which will continue to provide these important funds to our community. The program recommended is for the Federal Government to institute, as Massachusetts has done, a revenue enhancement program to collect taxes due. I further recommend that a fuel import tax be considered, especially in light of the current oil situation.

An additional concern is that there is some question in Washington whether CDBG funding actually reaches the low and moderate income people for whom it is targeted. Apparently even the Washington Post (which should know better) published an editorial on January 23rd which called the CDBG program little more than a glorified Revenue Sharing Program.

Let me assure you that in Newton 100 percent of the CDBG program funds go to programs which benefit low and moderate income persons. In fact, 89 percent of Newton's fiscal year 1987 CDBG funds (assuming only the 16 percent cut) are projected to go to programs directly targeted to low and moderate income persons in housing rehabilitation, housing development, and human services. Only 11 percent would be used for public facilities improvements within the three neighborhoods with the highest concentration of low and moderate income individuals.

It is important to note that, despite the perception of Newton as a wealthy community, CDBG funding is virtually the only source of funding for human services programs for low and moderate income families and individuals in Newton and is one of the few, rapidly dwindling sources of housing development and rehabilitation funding.

Examples of what CDBG funding has accomplished in the past program year (Program Year 10) follow:

59 low and moderate income Newton families have had their homes or assistance (a total of 744 units have been rehabilititated over the ten years of the program);

32 low and moderate income Newton homeowners have themselves painted or had a contractor paint their homes and have received a CDBG percentage rebate;

Using CDBG funds for design, acquisition, substantial rehabilitation, or site improvements costs, approximately 250 low and moderate income family, elderly, and handicapped units are being planned or built;

Provided funding for the following public services accomplishments:

Provided day care fee reductions for 59 children from low and moderate families (a substantial majority headed by single females);

Provided home health care for 110 high risk (either mentally or physically) low and moderate income elderly;

Provided counseling and legal support to 7 low and moderate income battered wives;

Provided job training for 12 low and moderate income court referrals.

Provided counseling and special activities to over 600 predominantly low and moderate income adolescents;

Provided support/counseling for 21 low and moderate income parents in child abuse/pre-abuse situations;

Provided individual, family and group therapy for 199 adolescent alcohol/substance abusers from low and moderate income families;

Provided a therapeutic camp environment for 13 low and moderate income children with learning or emotional disabilities; and

Provided elder drop-in centers in the 2 neighborhoods with the highest concentration of low and moderate income residents;

The effect of a 31 to 36 percent cut for Newton would mean that in fiscal year 1987:

12 lower income families (mostly headed by single females) would lose their day care assistance and might be forced to quit their jobs and go on welfare;

17 lower income senior citizens who are now able to live in their homes would have to be moved to institutions because the in-home care they receive would be terminated; and,

42 new units of low and moderate income housing now in the development pipeline would have to be abandoned.

Approximately 100 other lower income individuals or households would be impacted by the proposed cuts in fiscal year 1987.

Cuts of a similar magnitude will have to be made by all other cities, large and small, receiving CDBG funding and therefore, in the aggregate, many hundreds of thousands of lower income families and individuals will be hurt by these cuts.

Please continue to support actions to overturn the Administration's attempts to further cripple domestic programs such as CDBG.

PREPARED STATEMENT OF HON. ALBERT V. DIVIRGILIO, MAYOR, CITY OF LYNN, MA

I am writing on behalf of the City of Lynn to protest the severe budget cuts in housing and community development programs proposed by the Reagan Administration and recently presented to the Congress.

The City of Lynn, like many communities in the Northeast section of our country, suffered severe economic trauma in the post World War II era when one of our major industries, shoe manufacturing, suddenly left the region. Previously, the City was touted as the shoemaking capital of the world with several hundred companies manufacturing quality women's shoes.

With the loss of thousands of jobs, the City, over the next several decades, suffered dramatic losses in population and increasing unemployment and deterioration of its housing stock and infrastructure.

With the aid of federal programs, however, in the seventies, Lynn has been able to stabilize its neighborhoods, create and retain thousands of jobs, make available significant numbers of housing opportunities for low and moderate people, begin a massive redevelopment of its waterfront and its downtown and, in general, improve substantially the quality of life for its citizens.

This is not the time to disrupt the momentum cities like Lynn have built in their revitalization efforts. The Community Development Block Grant Program which has been in operation for over eleven years in Lynn has provided for essential services cut from the City budget in order to comply with Proposition 2½. The City's neighborhoods have responded to massive infusions of funding which paid for new public improvements, new infill housing, a completely renovated parks and playground system, as well as over 9,000 newly rehabilitated units in existing housing. In addition, the program has enabled the City to maintain a cadre of dedicated professionals with keen grantsmanship skills who have provided those essential services any city needs to prosper in these difficult times. The CDBG Program has already suffered a 25% decrease since 1981. Under the proposed additional cuts, this essential staff capacity would be lost to the City.

The Urban Development Action Program is another essential program for the cities if they are to survive and prosper. Lynn has made extensive use of this program. Without this vital tool, many economic development activities with concomitant job opportunities would have been lost to the City. It is discouraging, therefore, to hear that the UDAG Program, which is so important in leveraging private investment, is slated for extinction.

Lynn has been extremely aggressive in pursuing assisted housing for its low and moderate income elderly and families. Toward the late seventies and well into the eighties, over 2,000 units were added to the City's housing stock. Besides providing safe and decent housing, many of the units were located in existing underutilized or unused buildings in the downtown area thereby providing for historic preservation opportunities as well as thousands of construction jobs for our skilled building trades. The deep cuts proposed for assisted housing in the new budget will not only produce disastrous results for the many in our regional population who have housing needs but is also somewhat cynical when you consider the promises made by the Administration to ensure a safe and secure future for all Americans who are in need. In light of all these facts, I want to urge you to please think of the accomplishments of these successful programs and what they mean to us who are in the front trenches as you deliberate funding levels within the budget.

PREPARED STATEMENT OF PETER J. AUCELLA, DIRECTOR, LOWELL DIVISION OF PLANNING AND DEVELOPMENT

Honorable Chairman William Gray and members of the committee: On behalf of the federal, state and local development agencies that have contributed to Lowell's renaissance, thank you for coming to study the successes of the City of Lowell and the Commonwealth of Massachusetts.

We are at a crossroads in our quest to move this once-depressed city to the point where it is truly revitalized in its neighborhoods, its industrial areas and its downtown. We have come a long way with much help from the federal government and our state. But our momentum is severely threatened by the Reagan Administration's all-out assault on the federal programs which have brought this city as far as it has come.

The entire arsenal of weapons that have aided us in our uphill fight for economics revitalization is all at once being pulled away from us. Make no mistake about it, the huge sums of private monies that have recently been invested in our community were attracted here by the incentives and wise public investments which have so often been made possible with federal financial support.

UDAGs are certainly the sexiest of these programs, and you will hear much about them during today's hearings. But others are of equally great importance:

National Park Service support for the Lowell National Historical Park has generated a new industry here—tourism—and provided jobs and a significant cultural resource for generations to come.

Historic Preservation Tax Credits and over 40 industrial development bonds have been made many a marginal project here possible, and have attracted outside investors to the city during a critical period in its rebirth.

Mass transit capital and operating funds have permitted the development of bus and train linkages that work for business and industry, tourists and shoppers, reinforcing all segments of our local economy.

Federal Highway Administration aid for upgrading many difficult accessways to our industry and our downtown is still critical to the completion of our overall revitalization.

Superfund assistance and sewage treatment funding through the Environmental Protection Agency were there when we needed it most, but similar unaddressed needs still remain.

Housing rehabilitation funding under HUD's CDBG, Rental Rehabilitation and Section 312 programs are still seriously needed to help address our substantial substandard housing stock. Some 1,770 housing units have been rehabilitated with the help of HUD programs over the past decade, but extensive needs remain.

Most important of all, however, is the Community Development Block Grant (CDBG) Program, which has afforded us the flexibility that is needed to address needs throughout our community. Without CDBG funds to assist with our neighborhood needs, we would have been politically unable to concentrate our other funding (e.g., UDAG, IRB, NPS) on our job-creating projects in the downtown and industrial areas and we would have been unable to achieve the broad-based success you see here today.

Over the past ten years, fully 67% of our CDBG funds have gone toward improvements to our targeted neighborhoods—housing rehabilitation, energy conservation, code enforcement, streets and sidewalk improvements, playgrounds, a health clinic, elderly programs and other human services. 22% of our CDBG funding has assisted our downtown and industrial projects and urban renewal efforts. 11% helped to finance a superior Planning and Development staff with a broad range of expertise in the elements of economic revitalization: design, financing, planning, graphics, preservation, engineering and rehabilitation.

The tremendous impact of the CDBG program on our community cannot be underestimated. The projects may not always be headline-grabbers, but they have critical importance to our community. And they have equal urgency for the many cities that have not come as far as Lowell has. The proposed budget cuts for FY86—the 10% Congressional cut, the Gramm-Rudman cut, and the President's 15% deferral—will lead to a 30% cut this year alone, doing severe damage to our ability to meet the very real needs of our community.

The proposed FY87 HUD budget would effectively reduce the CDBG funding to 32% of the FY85 level and would lead to the dismantling of our Planning and Development capacity. While our state government can help cushion our losses from cuts in the General Revenue Sharing Program, it simply cannot be expected to fill the huge funding gap that will result from such drastic cuts in CDBG or these other programs.

I urge you to think about the reasons why the CDBG and these other economic development programs were created. I urge you to look at what they can and have helped to accomplish in Lowell and other urban centers. Think about the kind of America we want for the residents of our cities. These are appropriate investments we are making and our failure to do so will inevitably lead to the return of the conditions which called for the creation of these programs.

I hope that you will see the potential for other cities to achieve the same success Lowell has achieved. I hope you will allow us the opportunity to complete our revitalization by reauthorizing and funding these important programs.

Enclosure.

[From the Lowell Sun, Feb. 4, 1986]

LOCAL PROGRAMS "SQUEEZED" BY FEDERAL CUTS

(By Paul McCue)

LOWELL— Federal deficit reduction plans could cut as much as 28 percent of the city's Division of Planning and Development (DPD) budget at a time when local fiscal constraints make it difficult to compensate for the loss.

The cuts will principally affect the Council on Aging programs, housing rehabilitation plans as well as sewer and road repair projects, which are all major recipients of federal Community Development Block Grants (CDBG) administered through the DPD.

In addition, 15 percent of the $2.3 million in CDBG funds received last year are used for human services programs such as Lowell General Hospital community health clinic, UNITAS, Salvation Army and Big Sister.

The remainder of the DPD's budget is made up of $174,363 in city funds, although a mandate to cut budgets citywide make it unlikely local funds could offset the federal reductions. City Manager Joseph Tully has asked all city department heads to cut 15 percent of their budgets over the next five months to offset a $9 million revenue short-fall.

Congress late last year appropriated 10 percent less in CDBG funds and the Gramm-Rudman budget balancing amendment is expected to trigger an additional 4.3 percent cut in the program.

Also, President Ronald Reagan is expected to issue a spending deferral order that could cut another 15 percent from the CDBG program this year.

The various reductions amount to a 30 percent—or $690,000—total decrease that will be reflected in Lowell's share of CDBG funding for the next fiscal year beginning in July, said DPD Director Peter Aucella.

"SQUEEZE IS ON"

"It's hard to take a 30 percent cut in one year-," said Aucella.

"I think the squeeze is on, and I think we're going to have to make some tough decisions," he added.

Even a 15 percent cut would amount to $350,000 less in CDBG funding and could seriously hamper the DPD operations, said Assistant Director James Cook.

Of the various federal budget cuts being proposed, a reduction in the CDBG would have one of the most direct impacts on city government.

The largest portions of the CDBG are spent locally on housing rehabilitation ($600,000), South Lowell sewer and drainage projects ($300,000), Council on Aging ($200,000) and sidewalk and street repair ($160,000).

As the largest recipients of CDBG money, those programs stand to lose the most, but cuts would not necessarily have to be apportioned equally, said Cook. A citizens advisory committee and the city manager will make recommendations to the City Council on how the CDBG will be spent. The city usually has an appropriation by this time, but is has not received a figure yet this year because of fiscal uncertainties in Washington.

Aucella noted that the President's deferral has not been formally proposed to Congress, although it has been anticipated. Reagan is expected to release his budget proposals tomorrow after making his State of the Union address tonight.

After the President's budget is issued, "everybody will be able to clarify those numbers," said Rich Cavanaugh, a spokesman for U.S. Rep. Chester Atkins, D-Mass.

Many other local programs—housing, elder services and transportation projects—are also bracing for federal cuts this year.

Massachusetts will lose $337 million in federal funds if Gramm-Rudman leads to a $50 billion federal reduction, according to a recent study. Cavanaugh said many studies are depicting "worst case scenarios" under the Gramm-Rudman.

PROGRAM THAT AIDED CITY FACES ELIMINATION

LOWELL.—A federal program that were a major catalyst in Lowell's revitalization has been cut drastically and may be eliminated.

Lowell received six Urban Development Action Grants (UDAGs) totalling more than $14 million in the past eight years for projects including the Wang headquarters, Lowell Hilton, Lowell Research Center, Acre housing, the Lower Locks and Post Office Square parking garages.

UDAGs "played a key role in the revitalization of the city," said James Cook, assistant director of the Division of Planning and Development (DPD). The funds are granted to the city by the Department of Housing and Urban Development (HUD) for use on private development projects.

Congress last year cut the UDAG program by 25 percent—from $440 million to $330 million, and President Ronald Reagan may try to cancel spending $251 million of the remaining sum. After this year the program could be eliminated.

PREPARED STATEMENT OF FRANK E. BASKIN, LICSW, CHAIRPERSON, ADVISORY COUNCIL, ELDER SERVICES OF THE MERRIMACK VALLEY, INC.

My name is Frank E. Baskin and I am the chairperson of the Advisory Council of Elder Services of the Merrimack Valley, Inc. As an area agency on aging we grant and monitor the use of Federal title III funds of the Older Americans Act to agencies in the Merrimack Valley.

The Merrimack Valley has a growing population of elders whose needs are many and varied. As people age, their functional, interpersonal and economic resources frequently decrease. Further, elders' hospital stays are more frequent and for longer periods. Therefore, their hospital stays are more expensive, because they require more services.

Previously when elderly individuals became ill, they went to the hospital and stayed there—often for months at a time. For some years, now, a combination of funding sources including Federal titles III, XVIII, XIX, XX, and State and local funding have provided community services for the elderly.

Those services have alleviated problems including poor nutrition, isolation, depression, personal hygiene, laundry, food preparation, household chores, acute and chronic health problems, transportation, and concerns requiring legal advice. Those needs were being met because the Federal Government stepped in and made its vast resources available to those in need. State and local government and the private sector have never been able to meet those needs on their own. There is no reason to believe, with an ever-increasing elderly population, that State and local government and the private sector have the resources today to meet the long-term care needs of elders in our community.

Recently, the hospitals in our community have begun to implement the federally mandated DRG system. As a result, elderly hospital patients are being released earlier than they would have been prior to DRGs. This is placing an additional strain on the community support services in our community which must provide more, and sometimes more sophisticated services at an earlier point of an individual's recovery.

Today, in a short-sighted attempt to decrease expenditures, the Federal Government is trying to reduce the services which have been meeting those needs. If people experience health problems, or their functioning decreases but no help is forthcoming in the community, then hospital admissions may be become more frequent and nursing home admissions may occur sooner—all of which increases the cost Medicare and Medicaid.

What will happen to the nutritional status of the 80-year-old woman who no longer gets a hot lunch because Meals on Wheels were cut?

What will happen to the 86-year-old woman who develops an infection because she forgets to clean a cut after her home health aide services were dropped?

What will happen to the 78-year-old man who falls and breaks his hip over the growing household clutter which has gathered since supportive homemaker services were eliminated?

What will happen to the 85-year-old woman who is taking the wrong medications, now that the visiting nurse can no longer visit and monitor her medications?

What will happen to the 88-year-old woman who has a heart attack alone at home because her physician has been unable to monitor her health since her transportation service no longer exists?

Will some of these people go to the hospital when their needs could have been met at home?

Will some of these people enter a nursing home when they could have lived at home?

For functional, interpersonal, and economic reasons we have a joint interest in maintaining effective and efficient community services for the elderly. Passage of Gramm-Rudman would defeat that goal.

Prepared Statement of Coalition for a Better Acre

Low income and working families in Lowell are facing a severe housing crisis. Vacancy rates are less than 1%, and the minimum rents for the precious few available family apartments is $550 to $650 per month without utilities, certainly well out of reach of the poor and working families of Lowell.

Waiting lists of over 500 families exist who need the rare subsidized family units available in the city, or to get a valuable housing voucher. Area Homeless shelters are full and spilling over into the streets and the empty mill buildings.

HUD programs and subsidies have enabled the Coalition For A Better Acre, a community controlled neighborhood corporation, to do a significant part to alleviate these crisis conditions, through Section 8, UDAG, CDBG, and Rental Rehab.

Over 75 units of housing have received desperately needed renovations with private investment through moderate rehab Section-8 subsidies.

The Development of 38 units of new and renovated family housing on vacant lots and in abandoned buildings in the Triangle has been made possible and affordable to moderate income families through a $435,000 UDAG grant and $272,000 in CDBG funds. These funds helped to leverage over 2.5M in private investment in our neighborhood.

The current budget proposal will not only eliminate these programs which have been essential for stimulating new affordable housing, but will also threaten the existing affordable housing stock which remains in Lowell

The North Canal Apartments, a 267 unit HUD assisted project housing over 1000 low and moderate income people, is currently under HUD foreclosure. HUD is planning to sell the property to the highest bidder without any long term use restrictions or project based subsidies to guarantee the security of the current tenants.

The Temple St. Project, a 24 unit public housing facility, is in the process of being converted to a private housing coop through a HUD program. Under the terms set by HUD only three of the existing families can afford to qualify for ownership, the remainder will have to move and the units are forever lost to low income families.

Both of these projects need to be given long term (15 year) project based section 8 HAP contracts to insure that the existing tenants are not displaced and to guarantee the long term affordability of those units.

Scenarios such as those presented here are no doubt duplicated in every urban setting in the country. HUD programs, though imperfect in many ways, have been the only "safety net" available to low and moderate income families. Deeper cuts in these programs, and the elimination of needed deep subsidies, spells a major catastrophe for poor people all over the country.

As lawmakers who can effect the outcome of this year's budget battle, how do you propose to either save existing programs or maintain funding levels and subsidy programs?

—In the absence of HUD subsidies what do we do with the North Canal Apartments? Where do the over 1000 low income residents live once these affordable units are taken away?

—In the absence of HUD subsidies, why are programs such as that on Temple St. continuing to strip urban areas of their *existing* stock of subsidized units?

—In the absence of HUD subsidies, how will we encourage property owners to "rebuild" older neighborhoods while making units affordable to the poor and working people who currently live there?

Community people like those who make up the Coalition For A Better Acre are hard at work all over the country attempting to rebuild their neighborhoods and provide for their poorer neighbors. However, without the tools that have been forth coming from the federal government, those efforts will prove fruitless.

We urge you to fight hard to preserve these and other programs benefiting poor and working families, especially the deep subsidy programs for the destitute.

Prepared Statement of Southwest Boston Senior Services, Inc.

My name is Harry Douglas and I am a member of the Board of Directors of Southwest Boston Senior Services, a non-profit agen[illegible]erving elders in Roslindale, Hyde Park, West Roxbury, southern Jamaica Plain and western Mattapan. Many of the programs offered by the agency are dependent upon monies which are chan neled from the Federal Government through the City of Boston. One of these programs is Home Delivered Meals, and any decrease in the level of funding for this program would have serious consequences for the City's elderly residents. Let me give you a couple of examples.

Mr. R. is a longtime resident of Hyde Park, and for many years has been actively involved in volunteering in community service projects. Upon retirement, he became active in the congregate site lunch program funded by Title III. Recently, Mr. R. has become homebound, due to complications from diabetes, and so has had meals delivered on a daily basis from our Home Delivered meals Program. Mr. R. does not have any family in the area to help, and so relies on these noontime meals for a balanced diet as well as daily contact with the driver. If the nutrition program were cut, then Mr. R. would become increasingly isolated and diet deficient. Our experience with older persons tells us that this would then worsen his condition which would result in his admittance to either a hospital or nursing home.

Home delivered meals proved to be an invaluable service for Ms. M. Living alone, in her own home which is badly in need of repairs, this 93 years old woman found it difficult to accept help. Legally blind, and also suffering from a hearing loss, Ms. M. recently had both hips fractured. Unable to stand for any length of time, the hot noontime meal became her mainstay for her nutritional needs. Ms. M's acceptance of this service allowed for a relationship to develop with the Home Delivered Meal Driver which eventually led to her acceptance of additional services which she badly needed.

As a representative of Southwest Boston Senior Services and as a senior citizen who is very concerned about the services that are available to elders, I urge you to not cut the programs that the Older Americans Act is funding. Without these programs, senior citizens will be faced with unnecessary hospitalization and institutionalization, which in the end means that more public monies will have to be used to maintain them in an environment away from their homes.

I thank you for your time this evening.

PREPARED STATEMENT OF JOANNE R. POTTER, DEVELOPMENT COORDINATOR, BOSTON AGING CONCERNS YOUNG AND OLD UNITED, INC.

Thank you for the opportunity to discuss the impact of federal budget decisions on the work of Boston Aging Concerns, and on the lives of older and lower-income people in Boston.

Boston Aging Concerns—Young and Old United is a private, non-profit intergenerational organization. We have been working for the past thirteen years on the problems of older people in Boston, including lack of affordable housing, inadequate transportation, and lack of home-based services. We are 85% privately funded, and pride ourselves on our strong corps of committed community volunteers.

Based on our experience serving and working with older people in Boston, Boston Aging Concerns would like to make two recommendations:

(1) that Congress take action immediately to stop President Reagan's proposed deferral of appropriated CDBG funds for FY '86; and

(2) that Congress do what is necessary to prevent the across-the-board budget cuts mandated by the Gramm-Rudman-Hollings Act from taking place, and instead implement cuts on a program by program basis.

While the people we serve rely on a number of programs affected by both the President's budget and by Gramm-Rudman, our immediate concern is about the loss of CDBG funds to Boston this fiscal year. The effective way in which Boston Aging Concerns has used CDBG funding offers one dramatic example of why so-called "equal" cuts may be disastrously *unequal* in their effect on older and poor people in Boston.

In the past four years, BAC-YOU has received a total of $117,000 in CDBG funds. $50,000 of this has gone to support a housing counselling and advocacy program, and services to older people living in our housing. BAC-YOU's Housing Resource Services would be seriously threatened, if not totally eliminated, by the proposed cuts in the CDBG program.

$67,000 was used to help develop the Mary Delay House on Park Drive. In 1982 this property was a burned-out lodging house, off the tax roles, and a hazard to the neighborhood. With the help of the City of Boston and CDBG funding, this house was completely rehabilitated, and now provides safe and affordable intergenerational housing to 23 older and low income people. Many of the residents have incomes below $6,000 a year; many have been displaced from other rooming houses in downtown Boston.

We didn't assume that the government was going to pay for the whole cost of this rehabilitation. Instead, Boston Aging Concerns used CDBG funding to attract other funders and financiers. In fact, the $67,000 in public funding for that project leveraged a total development budget of $400,000—a 1-to-5 match of public money with private dollars. Furthermore, that investment created permanently affordable, unsubsidized housing for lower income people. That's a good investment!

We are now working on our next development project, the rehabilitation of two BRA-owned, boarded-up lodging houses in the South End. This project, at a total cost of about $1 million, will create permanently affordable, unsubsidized housing for 30 older and lower income people. We're asking for one-time CDBG funding to cover only about 20% of the total development costs. And it's likely that the project will not go forward without that support.

In effect, if CDBG funds are not available for this project, the federal government has lost the opportunity to spend one dollar and create five dollars worth of new affordable housing. At a time when every federal dollar needs to be stretched as far as it can possibly go, we think that would be financially irresponsible.

We urge Congress to stop the President's planned deferral of FY'86 CDBG funds—funds which Congress has already appropriated, and which Boston desperately needs this year to match the private dollars available to support our work. Furthermore, we ask that the President and Congress address the important work of reducing the federal deficit by careful individual consideration of the cost-effectiveness of each federal program. It is critical that we spend our tax dollars wisely by investing in federal programs, such as CDBG, which leverage strong local and private support.

Thank you.

PREPARED STATEMENT OF JACK ORMSBEE, LEGISLATIVE CHAIRMAN, MASSACHUSETTS STATE FEDERATION OF CHAPTERS, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

This statement is submitted on behalf of more than 14,000 federal retirees who reside in the Commonwealth of Massachusetts.

Federal retirees share with the overwhelming majority of their fellow Americans a deep concern over the bloated federal budget deficit. They fully recognize the urgency of bringing this deficit under control. The need to eliminate the deficit entirely over a five-year period has not been adequately demonstrated, however. In the absence of such a demonstration, this target and timetable appear to us to be unjustified in view of the Draconian measures that will be required to achieve them.

The President's budget for FY 1987 also fails to address the major causes of the deficit: the loss of revenues resulting from the enactment of tax reductions in 1981 which opened up huge corporate tax loopholes and the massive build-up of military programs during the same time period despite increasing evidence of extensive waste in those programs. The budget's only provision to recover revenue losses lies in greater user fees for the general public and the sale of government facilities in the name of privatization with no regard for the impact of such sales on serving the needs of the American public or protecting their interests. The budget not only does not reduce burgeoning military programs but proposes that they be substantially increased. Further, there is apparently a growing suspicion in Congress that the true costs of such programs have, in fact, been understated.

Aside from these general deficiencies, the President's fiscal year 1987 budget, like the Gramm-Rudman Act, is patently unfair and discriminatory in its cancellation of inflation protection for the annuities of federal retirees. Under its provisions, federal retirees would bear the brunt of reductions in entitlement programs which are not means-tested. Other entitlement colas involving costs several times greater than ours are exempt from any reduction even though the five-year targets of the Administration budget (and Gramm-Rudman) could as easily be satisfied by a relatively short suspension of colas for all annuitants—rather than the five year loss imposed upon a small group of us. We do not object to bearing our fair share of the sacrifice needed to reduce the deficit but we submit that this is clearly not a fair share and, frankly, we can see no reason for requiring federal retirees to shoulder the entire burden other than the fact that we are vastly outnumbered by annuity recipients in other programs. As our President, Lud Andolsek, has pointed out, inflation does not discriminate between groups of retirees and neither should our government.

Our pension plan is healthy. We made substantial contributions to it. Our annuities are not "handouts." We got them the old-fashioned way—we earned them. We even pay federal income taxes on their full value unlike other annuitants. In these circumstances, it appears to us that the President's budget reflects and reinforces the low esteem in which this Administration holds federal employees—an attitude which not only makes second class citizens of those employees but will ultimately spawn second rate public service for the American people.

The loss of inflation protection to federal retirees is compounded by other provisions of the President's budget which will increase our cost of living well beyond the inflation level. Cancellation of revenue sharing will mean substantial increases in local property taxes for many of us. Reductions in or cancellation of programs serving the needs of the elderly for medical assistance, housing, transportation and other vital services will affect many of us and force some of us below the poverty level. In this sense, the President's budget represents a "double dip" thrust at federal retirees.

We urge you to bear these inequities in mind when reviewing the FY 1987 budget proposal and to recommend to the House changes that will correct or at least mollify them. We continue to hope that our representatives in Congress will have the courage to stand up for what they think is right, impolitic as it may be to do so.

PREPARED STATEMENT OF LEO F. DESJARLAIS, EXECUTIVE DIRECTOR, COMMUNITY TEAMWORK, INC.

President Reagan's Proposed Budget for Fiscal Year 1987 would complete the destruction of the "safety net" that he proudly cited years ago. It is based on erroneous assumptions and analyses that are mainly ideological rhetoric with little basis in fact.

The President proposes to abolish the Community Services Block Grant because it "creates inefficiencies and increases costs" by allegedly duplicating other programs, and denying States "latitude in developing a mix of services best suited to their unique social and economic needs."

The statement is absolutely the reverse of the reality in Lowell and other situations. Rather than duplicating other programs, CSBG is the glue that holds the programs together and prevents duplication. Rather than denying States "latitude in developing appropriate program mixes", CTI and other CAPs are used by the State to administer the range of programs described below. It is the CSBG core funding that has made the agency able to administer such a broad range of programs. Without the CSBG, CTI would at best be a passive instrument only able to handle those few programs that provide direct administrative expenses and totally incapable of investing the necessary time and resources in State initiatives like homelessness. The abolition of CSBG would actually deny Massachusetts and other States the "latitude" to develop a service mix that responds to "their unique social and economic needs."

State agency	Programs operated through CTI
Executive Office of Communities and Development	Fuel Assistance.
	Weatherization.
	Energy Conservation.
	Housing Services.
	Section 8 Leased Housing Assistance.
	Chapter 707 Leased Housing Assistance.
Department of Public Welfare	Emergency Family Shelter.
	Transitional Shelter.
	General Relief Advocacy and Outreach.
Department of Social Services	Family Day Care (largest system in State).
	Day Care.
	After School Care.
	Protective Care.
	Day Care Voucher Management.
Department of Public Health	Women's, Infants and Children's Supplementary Nutrition Program.
Department of the Attorney General	Consumer Protection.
	Face-to-Face Mediation.

But the harm from the budget will not stop with the devastation to CTI's capacity to respond to State and local "unique social and economic needs". CTI's individual Federal programs, whether direct or State pass-throughs, will suffer crippling cuts that will leave thousands of needy children, families and seniors without the services and assistance necessary for their survival.

The Energy and Section 8 Housing Assistance programs that enable thousands of low-income households to pay their housing costs will be cut back, with the results being felt in State-funded Shelter programs. The Shelters will be swamped with families made homeless by the loss of subsidies that enabled them to pay the exorbitant housing prices generated by the booming State economy. (The elimination of the FEMA Emergency Food and Shelter Program will make these things worse still; more people will be made homeless by the lack of Emergency Shelter payments and less money will be available to feed them.)

Cruel ironies abound in this budget. Even the programs that will escape cuts are still reeling from years of draconian austerity that have placed them on the verge of extinction. The Foster Grandparent Program and other senior volunteer programs have been forced by ever-increasing demands for more local share and volunteer service years to spend virtually all their time fundraising and virtually no time working with senior volunteers and their clients.

The Head Start Program was part of the original Reagan safety net. It is perhaps the most tattered part of the "safety net" now. The alleged increases of the past several years have left the program unable to pay even marginally adequate salaries. Long-time staff are leaving in droves; and capable, quality replacements cannot be recruited to work for the wages that the Federal government allows. The situation is untenable. The increased enrollment mandated, but not adequately supported, by the Federal government is about to collapse. Programs will be unable to fill classrooms with adequate staff and will thus have to cut back. The dream of Head Start serving more of the eligible children is dead. The only question that remains under the President's budget is how many children will have to be cut from the Program to enable it to survive. The most illustrious program of the Great Society is being destroyed by the Administration's fiscal policies at the time when its early successes are becoming evident in the form of productive young adults whose lives were changed by the Head Start Program in the sixties and seventies.

Even the WIC Program, which is supposedly spared the budgetary axe by the President and Gramm-Rudman, will suffer a 3.2 percent decline in the amount of food for low-income children.

In addition to direct budgetary assaults, the Administration is proposing regulations that will scuttle the effectiveness of many programs so that they can then be marked for extinction. The most blatant example is the Section 8 Housing Assistance Program. The housing market in Massachusetts is in the throes of runaway inflation that has raised prices for all income ranges and placed even apartment rentals beyond the means of low-income and even many moderate-income people. Despite this overwhelming reality, HUD intends to make only token increases or even lower the Section 8 Fair Market Rents. Housing agencies like CTI will thus be faced with the outrageous situation of hundreds of Section 8 Certificates being in the hands of low-income people unable to find units within the allowed price, and hundreds more families in the area in need of housing assistance but equally unable to use the inadequate certificates. Having thus sabotaged the program, the Administration obviously plans to point to the unused and useable certificates and use this "proof" of the lack of need as ammunition to support the abolition of the program. This type of deception clearly fits the Administration's goals of dismantling the government no matter what the consequences.

We urge the Budget Committee to reject as unacceptable the consequences of the President's budget described above. A vigorous tax collection program of the type carried out in Massachusetts and other States would reduce or even eliminate the need for drastic cuts in vital Federal domestic programs. It is better to make all citizens pay their fair share of taxes than to destroy the programs that low-income people need to survive and to become self-sufficient citizens.

Prepared Statement of Kerry Horman, Director, Community Development for Attleboro, Inc.

The purpose of this correspondence is to seek your assistance for preserving the HUD Community Development Block Grant Program. We understand that the financial condition of the nation is of utmost concern, however, it is our feeling that when tough decisions, such as those now facing you have to be made, it is critically important that those programs, that are of the greatest benefit to the nation and which are needed the most, be preserved.

The Block Grant Program has been responsible for the significant improvement of living conditions of many low/moderate income people throughout the country. In Attleboro, the major focus of our efforts has been neighborhood revitalization, particularly through housing rehabilitation. Over the last 6 years, nearly 600 units of housing have been rehabilitated including the creation of approximately 60 new units as a result of the reuse of vacant structures. The importance of such projects in a city with a critical housing shortage cannot be overstated.

Other major projects that have been completed through the Block Grant include the renovation of a vacant school building into a neighborhood center now providing low cost space for programs serving low/moderate income people. These programs include bilingual education, skills training, Head Start, fuel and food assistance, and living skills for the mentally handicapped. This building has been operating self-sufficiently for the last several years.

Adjacent to the above facility, we have utilized Block Grant funds to assist in the renovation of an armory which serves as a neighborhood recreation facility, providing indoor recreation opportunities for the low/moderate youth in the area.

Recently, Block Grant funds were used in conjunction with private and other public sector funds to rehabilitate a structure into a shelter for the homeless. It is estimated that this facility will save the State approximately $100,000 during its first year of operation and $200,000 during the second year, in rental charges for the homeless.

It is our honest opinion that the Community Development Block Grant Program is the most important urban program in existence due to its flexibility. In Attleboro, it has brought about revitalization of the City's lowest income neighborhood, as well as provide many important benefits that have significantly changed the living conditions and well being of thousands of our low/moderate income residents.

Much more needs to be done. The proposed cuts and deferrals of funds would essentially leave Attleboro with the ability only to operate a very small housing rehabilitation program, in which we currently have over a 2-year backlog of projects under the current funding level. It would also require significant staff reductions which will limit the ability to continue the progress we have seen to date. We find it almost ludicrous that a program that has consistently demonstrated an outstanding track record throughout the country, meeting the individual needs of cities, and emphasizing the public/private partnership, is now being dismantled. It appears that the worst thing that those of us in the public sector do is succeed.

All programs can be improved and the Block Grant is no exception. But, the job of our congressional delegation is really to make the hard choices to determine how our public goals can best be met. It is our feeling that the hard choice, may in fact be to protect the Block Grant Program and eliminate other less essential programs.

Thank you for your consideration of this issue and if we can provide any further information to you, please do not hesitate to contact me.

Enclosures.

HOMELESS SHELTER "MODEL FOR STATE"

(By Mike Kirby)

ATTLEBORO—The establishment and operation of the city's homeless shelter is a "model" for Massachusetts to follow, Kitty Dukakis said Tuesday.

Social service and religious groups in the area, she said, should join forces again to attack another problem: housing for low-income families.

Dukakis, wife of Gov. Michael Dukakis, chairwoman of the governor's advisory committee for the homeless and co-chairwoman of the Fund for the Homeless, made the remarks at the official opening of the shelter, more formally known as the Attleboro Area Family Resource Center.

Although the public tends to think of homeless people as "street people," the problem more often involves families left without a home due to abandonment, lack of money or tragedy, Dukakis said.

Representatives from Attleboro area agencies banded together about two years ago to address the homeless problem in the area.

Using their collective knowledge, the group was able to buy a house at 200 South Main St. owned by Dr. Ahmad Shahidi. It was earlier the home of industrialist Lloyd G. Balfour.

The sponsors obtain government grants and private donations and operate the shelter.

The key to the center's success is that it teaches homeless families how to live on their own and helps them find permanent housing, taking them off public assistance. Of the 26 families the shelter has served since opening in June, 22 have found a permanent place to live, she noted.

"This is not a shelter. It is a home," Dukakis said.

About 75 people attended the opening, including representatives from the public and private groups which contributed to establishment of the shelter.

Mayor Brenda Reed noted that children were playing in the next room, oblivious to the crowd.

"Except for today, they're enjoying a normal lifestyle,"Reed said, "Prior to this, they would have been living in a motel."

Patricia Ruane, president of the Attleboro Coalition for the Homeless which helped establish the shelter, said representatives from the shelter follow up on the families and have found them able to maintain their new homes.

"Most shelters provide a bed, but ours provides more—a future," Ruane said.

Charles Atkins, commissioner of the state Department of Public Welfare, said his agency will be using Attleboro as an example of how to establish and operate a family shelter.

"This has been done in other communities but not nearly this well," Atkins said.

After a few more months, the Coalition for the Homeless should look at its record and the needs of area families to see if the shelter—which now serves between four and seven families—should be expanded, Dukakis said.

[From the Sun Chronicle, Oct. 3, 1985]

SHELTER SUCCESSFUL WITH ITS MAIN GOAL

(By Mike Kirby)

ATTLEBORO.—A combination of tax dollars and community support have added up to savings for area taxpayers—and a roof over the heads for numerous homeless families.

In June, Attleboro Area Youth and Family Services, a nonprofit organization partially funded by the United Way of Northern Bristol County, opened a shelter for homeless families at South Main and Maple streets.

Tax dollars were involved, a total of nearly $150,000 for the first year and $100,000 in the future.

The state Department of Public Welfare hopes its investment will pay off in two ways.

In recent years, a shortage of housing in the area has hit poor families. Rather than the street people seen in larger cities, the typical homeless people are single parents who have been forced out of their apartments due to a lack of money, abandonment or some tragedy.

The welfare office had been housing 15-25 of these families in motels along Route 1 at a cost of $200—$300.

As a result, taxpayers were paying roughly $200,000 a year. By opening the shelter, the state hopes to save money.

That aspect of the shelter is working, says Robert Wilson, program director for youth and family services, and Maryann Jordan, shelter director. Since August, motels have been virtually free of welfare recipients, they say.

The shelter, say Wilson and Jordan, also has been successful in its main goal: finding a permanent place for families to live. The seven-member staff and numerous volunteers teach the families—which now number five—how to find an apartment and a job, balance a checkbook, care for their homes and children and other skills that will help them keep an apartment.

The Coalition for the Homeless, the group which founded the shelter, has raised about $43,000 toward starting and operating the shelter.

More volunteers are needed. To donate or volunteer, call 226-5722.

CITY SHELTER GIVING HOMELESS FAMILY A CHANCE

(By Mike Kirby)

ATTLEBORO.—The thing that really angered her is when the guest book from her husband's funeral was sold.

Audrey (not her real name) and her teenage daughter are the first occupants of the city's new homeless shelter. A middle-aged woman with a pleasant sense of humor, she tells her story which is somewhat typical of the plight of many homeless families in the Attleboro area.

Her husband, who died a few years ago, had stubbornly refused to buy life insurance, which she now admits was a mistake.

A little while later, when the company where she was working moved operations out of the country, she lost her job.

Repairs piled up and she needed the money, so she sold her house. She found she was unable to pay her rent so she was evicted from her apartment.

Without a high school diploma, she couldn't find a job. The state Department of Public Welfare paid for her and her daughter's stay in a Route 1 motel.

She found she could no longer pay the storage for her furniture and other goods. Without her knowing it, boxfuls of items—including the funeral guest book—were auctioned off.

"Sometimes, I just wanted to scream," she says, "Things just kept happening. I felt very depressed."

The shelter, or "family resource center" as those who run it prefer to call it, opened after Audrey and her daughter spent nine months in two rooms at the motel.

Maryann Jordan, director of the center at South Main and Maple streets, said the seven-member staff attempts to do a number of jobs not normally done at homeless shelters.

Most families—within a week there are four families expected to be living there—will be referred there by the welfare department, Jordan said.

The staff assesses the family's problems and provides counseling, she said.

In Audrey's case, help in budgeting, job training and finding and maintaining a home—things her husband had usually done—were needed, Jordan says.

Many homeless families consist of unwed mothers with one or more children, often abandoned by their husbands, boyfriends or parents, she says.

Those families are given instructions in raising children, health, finances and job training, Jordan says.

After less than a week at the center, Audrey found a job at a local jewelry shop, and her daughter will begin working soon as a cashier. Although hers is tedious work at minimum wage, "It's a start," Audrey says, noting that she has just opened a savings account.

Every day, she waits for the newspaper to arrive to see what apartments are available. Although counselors assist her, she makes the phone calls inquiring about apartments.

The idea behind the center, Jordan says, is to make the families as self-sufficient as possible so that they can become productive members of the community. It also relieves the state's burden of paying for motel rooms.

Last year, the welfare department paid for more than 80 families to stay in motels. Even now, there are usually six to 10 families in motels.

The center is different from the shelters like Boston's Pine Street Inn. Instead of cots lined up in large rooms, the center has sensibly-furnished individual rooms for the families and a common kitchen and bathrooms, all in keeping with the Victorian presence of the house.

The families are not allowed to become too comfortable at the center, however, Jordan says. The average family's stay is expected to last about 1 to 2½ months.

Families will be told to leave if they show no signs of trying to change themselves, Jordan said.

That's not the case with Audrey, Jordan said.

"She's come a long way," Jordan said.

Audrey is confident she can find a job within a few weeks and is thinking about studying for her high school diploma equivalency.

City Realtors Works To Aid Homeless

Attleboro.—The Attleboro Area Board of Realtors Inc. is working for the city's homeless.

The Realtors last week donated $3,520 in cash as well as clothing and canned goods from their membership for the city's recently-opened homeless shelter.

The donations were made as part of the Realtors' drive for 1985.

Mary Fabas and Norma Brewster, chairwomen of the campaign, said the drive is part of the national Realtors' association's "Make Am Better" campaign.

Fabas and Brewster said the Realtors continue to accept donations from members of general public.

Director Maryann Jo[illegible]aid the shelter received a good response from volunteers who assist in opera[illegible] at the center. More volunteers are needed as are donations to help maintain building, she said.

OLD HOUSE GETS NEW LEASE ON LIFE

(By Paul Robicheau)

ATTLEBORO.—Families have moved back into 57 Bank Street for the first time in about two years following last week's completion of rehabilitation of the three-story building.

The $147,000 project was done with $54,400 in federal housing rehabilitation funds from Community Development for Attleboro Inc. A low-interest loan from Attleborough Savings Bank financed the remainder.

The building's seven two-bedroom apartments should be occupied by the end of the week, said Peter LaChance, part-owner as one of the trustees of 57 Bank Street Trust.

Low to moderate income tenants from the Attleboros are moving in under federal rent subsidy guidelines which provide part of their rent.

"It was a complete gut rehab," William Spaner, housing director for Community Development, said of the building. "But we tried to maintain the exterior character of the house."

The project was the largest in the program's seven-year history.

Paned window designs were installed and landscaping was done around the parking created in the front and rear.

The reconstruction, done by Parkman Inc. of Taunton, was completed right on schedule Friday after three months of work.

"I went by Saturday and it was kind of weird to see people in that place again," Spaner said.

The building at the corner of Bank and Dean streets, described by neighbors as an "eyesore," has been condemned apartment by apartment until the entire building was closed almost two years ago.

Vandals had broken windows, torn down cabinets and set fire to some article left behind.

But the rehabilitation effort may now spread to a three-story house to the rear on Dean Street, Spaner said.

"It's like dominoes. You do a key project and the rest of the neighborhood benefits, directly or indirectly," he said.

Community Development has had a hand in rehabilitation of more than 450 housing units in the city, about $3 million in work, since the agency started in 1976.

[Whereupon, at 12:30 p.m., the committee adjourned until Wednesday, February 12, at 1:30 p.m., in Tallahassee, FL.]

IMPACT OF THE PRESIDENT'S 1987 BUDGET

WEDNESDAY, FEBRUARY 12, 1986

House of Representatives,
Committee on the Budget,
Tallahassee, FL.

The committee met, pursuant to notice at 1:30 o'clock, in the Cabinet Room, Florida State Capital, Tallahassee, FL, Hon. William H. Gray III (chairman) presiding.

The Chairman. The House Budget Committee will now come to order. Good afternoon, ladies and gentlemen. The House Budget Committee is pleased to be in Tallahassee, FL today to hear testimony on the 1987 Federal budget.

We were invited by Congressmen Buddy MacKay and Connie Mack of Florida, both of whom serve on the House Budget Committee. Also joining us are Congressmen Mike Lowry of Washington and Charles Schumer of New York. In addition, we are pleased to have with us Congressman and former Senator Claude Pepper. He is chairman of the House Rules Committee, the Subcommittee on Health and Long Term Care of the Select Committee on Aging, and one of the great leaders in our Nation's Capital.

We welcome Hon. Bob Graham, the Governor of Florida. He will testify before the committee along with all the other distinguished persons who have come to participate in this hearing.

This is the third of five hearings the Budget Committee is holding around the country to provide citizens a forum to express their views on the budget and on the deficit problem. We have already held hearings in Chicago and in Lowell, MA. Tomorrow, the committee will meet in Dallas, TX, and on Friday in San Francisco.

We conducted a similar series of hearings a year ago in preparation for the 1986 budget. They were invaluable in determining how citizens across the Nation and from widely diversified backgrounds feel about the budget priorities being debated in Washington. We think it is important that the Budget Committee leave Washington and come to the American public.

With the submission of the President's 1987 budget on February 5, we have embarked upon a new round of budget decisions. The President's budget submission has outlined his priorities. Like the President, we also find the $200 billion annual deficits to be totally unacceptable.

Such deficits threaten the economic stability of our economy and the standard of living of our citizenry. We also share the President's commitment to a strong national defense and good international relations. However, Congress does not agree with the President on how to achieve these diverse goals.

In his 1987 budget message the President states:

> The economic expansion we are now enjoying is one of the most vigorous in 35 years. Family income is at an all-time high; production and productivity are increasing; employment gains have been extraordinary; and inflation, which raged at double-digit rates when I took office, has been reduced dramatically.

For some Americans, we know that the President's statement is true. Some of our witnesses today may describe how they have benefited from the administration's policies.

For others, however, the President's statement is far from accurate. The committee does not want to forget those who are not faring so well under the administration's present policies. Consequently, we have among our witnesses today persons who will talk about the impact of budget policies on the elderly, veterans, and low-income persons in need of services.

We do not want to forget that citizens cannot enjoy the economic fruits of their labor when their communities are controlled by crime and drug trafficking. The available data suggests that this problem is increasing in Florida, the committee is concerned that the President's budget may not be adequate to address it. As we proceed to address the deficit question, we want to make sure that we do address this problem.

For example, the budget calls for a $19 million reduction in 1986 and a $17 million reduction in 1987 in Customs Service efforts to control drug trafficking through the use of air vehicles. The budget also cuts $4 million in 1986 from the Customs Service efforts to reduce drug trafficking on boats and ships.

These reductions are proposed at a time when the Drug Enforcement Agency, the DEA, indicates that 70 to 80 percent of all illegal narcotics are smuggled into the U.S.A. via Florida. DEA also estimates that we are stopping only 15 to 17 percent of the drugs coming into this great Nation. While the amount of cocaine seized by the authorities doubles every year, the amount which slips through also probably doubles.

Again, we welcome all the witnesses who have come to testify today. This is your hearing. We want your views on the President's budget, but we also want your views as to alternative ways to reduce the deficit.

Those of you who were not able to get on the witness list because of the constraints of time, please submit your written testimony for the record so that it become a part of these proceedings. The record will remain open for 10 days. You may submit your statements to Congressman Connie Mack's office or to Congressman Buddy MacKay's office and they in turn will see that the committee receives it.

Again, this is the second year that we have had these hearings. We are coming to you, the American people, to get your views, not just the views of those who lobby, who represent interest groups in Washington or the administration.

It is hoped that you will share with us your candid, frank opinions on the deficit problems and alternative ways of solving that problem. Also, your views of the choices and the priorities expressed in the President's economic description for dealing with the budget deficit.

We are delighted to be in the State that is ably represented by Congressman MacKay and Congressman Mack who serve with distinction on the House Budget Committee. Before proceeding with our witnesses, I would like to call upon each of these Members of Congress from this great State to give opening remarks. First, Congressman Connie Mack.

Mr. **Mack**. Thank you very much and I will be very, very brief because as Bill has indicated we are here to listen to your views. I would just like to say though that the night before last I held a town meeting in North Port, which is in my district.

I certainly would not want to give the impression, and I know you do not mean to, that this Budget Committee has to travel around the United States to get input from the American people.

Those of us who represent different districts, especially here in the State of Florida, are out in the countryside every day trying to find out what the views of the American people are. The place where they said we ought to start, is that we ought to start right at the cost of Government in our offices and the way we operate business, the way we operate our particular offices.

The second point I would like to make is that, I think, when we go through the process and as you talk to us about what your ideas are to control the size of the Federal Government and to control spending, that we keep in mind that in 1984 there was an election in this country that basically said we solve the deficit problem on the spending side of the ledger, not on the tax side of the ledger.

So, if we are going to be increasing spending in one area of the Federal Government, we have got to be prepared to say where our priorities are and where we would make reductions in the other. So, I would ask you, if you would, to keep that in mind as you are providing your testimony. Thank you.

The **Chairman**. Thank you, Congressman Mack. We in Philadelphia feel that he is a long-lost relative from Pennsylvania, because he has some roots in Philadelphia, PA. So, it is good to be here with you.

Mr. **Mack**. Did you not come from this part of the country?

The **Chairman**. Yes; I have some roots in Tallahassee, FL. From the age of 4 to the tender age of 8, I had the privilege and honor of being a citizen of Tallahassee, FL, therefore, I am coming back home myself. It is good to be in Florida and to sit here with you, Connie Mack.

Now we will hear from Congressman MacKay, from the great State of Florida. He is also an outstanding member of the Budget Committee.

Mr. **MacKay**. Thank you, Mr. Chairman. I do not have any great wisdom to impart at the beginning of this meeting. I am pleased that the meeting is being held in Tallahassee. Connie Mack and I had a great deal to do with setting up the agenda.

It has been our effort to try to set up an agenda that would allow the committee to hear a response from a cross section of Florida's leadership, public and private sector, to get a real feel for the impact of what we have done and what we might do with the deficit reduction. I look forward to the hearing.

The **Chairman**. Thank you, Congressman MacKay.

There is one person that you dare not overlook in the House of Representatives. You can overlook the chairman of the Budget Committee, you can sometimes overlook the chairman of the Ways and Means Committee, you can even overlook the chairman of the Appropriations Committee, but there is one person who acts as the traffic cop of the legislative process. He stands at the crossroads directing what legislation will come to the floor and in what form it will come to the floor. We would love to have just an opening comment from the senior member of the Florida delegation and the Chair of the distinguished Rules Committee of the House of Representatives, Congressman Claude Pepper.

Mr. PEPPER. Thank you very much, my friends and the distinguished chairman of the Budget Committee. You can understand now why we all think so much of Chairman Gray in the House of Representatives in Washington.

He has done a magnificent job as chairman of the Budget Committee and while there is much yet to be done, his leadership means much to all of us in the House of Representatives. He has been struggling to try to give the American people good government and sound government.

I commend Mr. Gray and the members of the committee for coming here to our State capital. I am always proud to come back here to Tallahassee, because I lived here from 1930 until 1952 and my heart will always be back here wherever I am otherwise.

We are proud of our capital, we are proud of our State. We are proud today to be able to hear our distinguished Governor who will speak knowingly of the problems presented to our State, to our counties, and our cities, and to the people generally by the President's budget.

I can hardly think of a public authority or any person who is the beneficiary of any program to help the needy, who is not going to suffer from this budget if it should be approved by the Congress.

Heretofore, Congress has been simply ignoring the President's budget because it was so far out of line with the thinking of Congress that Congress just ignored it. I feel that the proper approach—and I feel it would be the accurate approach this year in Congress—would be to take up the President's budget, give it full and fair consideration and judge it according to its merits and either approve it or reject it.

I think that it will be rejected because it imposes harsh cuts upon the people of this country who need help. I believe as long as we have more than 100 big corporations of this country, many of them doing as much as $2 or $3 billion a year business with our Defense Department, that pay no taxes at all it is not fair to ignore the obligation those people owe to pay a fair share of the cost of running the Government and to take it out on the people, so many of whom are helpless today.

So, this committee is going out over the country to give the people, just as you here today, and your elected officials, a chance to tell the truth, tell the facts about how this budget affects you, so we will have the benefit of that knowledge in the Congress. I am glad you all are here today. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much, Chairman Pepper, for those words of encouragement and welcome to your State as well.

At this time, I will call upon Congressman MacKay to introduce our first witness.

Mr. MACKAY. Mr. Chairman, it is my pleasure to introduce to the committee Hon. Bob Graham, Governor of the State of Florida. Many of you know Bob by reputation. Certainly, he is a spokesman for the New South and for the revitalization that is taking place here. I have spent my career in the legislative branch, as you have.

I would like to say he was an outstanding legislator. Some of us think he is better in that branch than he has been in the governorship—and he has been an excellent Governor. With that introduction, before I get in any more trouble, Governor Graham.

The **CHAIRMAN**. Thank you Congressman MacKay. Governor, we welcome you to the field hearings of the House Budget Committee held here in the State of which you have the honor and the privilege of being the chief executive.

Governor, we welcome you to these proceedings. Let me say to those who are spectators here today, we wish to remind you of the normal rules of procedure in a House hearing, whether in the Capitol or on the road. We would ask that those who are witnesses as well as spectators, to refrain from public expressions of approval or disapproval of any statement by a member of the committee or a witness.

That is the normal rule and we will operate under that rule because I know you love all of these witnesses and it might take 5 or 10 minutes of applause before we can even get to ask them a question. Please refrain from expressing approval or disapproval of anything that is said, so that we can have a truly objective hearing and hear clearly what is being said by the witnesses.

Governor, we welcome you and thank you for having us.

STATEMENT OF GOV. BOB GRAHAM OF FLORIDA

Mr. **GRAHAM**. Mr. Chairman, thank you very much and I wish to extend to you and the members of your committee a welcome to our State and to our capital. You are surrounded by three outstanding Floridians who have rendered great service in this State and now to the Nation and that service is going to be especially important over the next period as we attempt to deal with what is the fundamental issue of the fiscal solvency of our Federal Government.

Mr. Chairman, if I could summarize the remarks I am going to make with these points. From the perspective of the States, the No. 1 domestic priority of the National Government is to regain control of its budget. No. 2, from the perspective of the States, this represents an opportunity. It is an opportunity to ask what are the fundamental national constitutional responsibilities of the Federal Government and to protect those fundamental responsibilities.

Second, it is an opportunity to reassert our commitment to the maintenance of the contract which exists between the Federal Government and individual Americans assuring that there is adequate financing for those contractual responsibilities.

Third, in the area of federalism of shared responsibility of the National Government, States, and local communities, it is an opportunity to ask what should be the responsibilities of these varying levels of government.

I am going to suggest that the primary responsibility of the National Government should be directed at those programs that are designed to ensure income maintenance for particular populations at risk and that the reason for this primacy is because of the mobility of our population and the desire not to create competitive forces among the States over levels of income maintenance support.

If the States and local communities have demonstrated and are prepared more so to accept responsibilities for other domestic programs and that the Federal role in those other domestic programs should be discretely analyzed and articulated in public office.

Mr. Chairman, these are difficult times and we face difficult choices. The national deficit is a crushing weight that is breaking the entrepreneurial spirit of America, limiting our growth, the realization of our dreams and burdening future generations with a grim legacy of debt.

We must balance the budget. The days of thinking about it are gone. The virtue of the Gramm-Rudman-Hollings law is that it addresses the immediacy of the deficit crisis, but Gramm-Rudman-Hollings also has some deficiencies. One major drawback is that while Gramm-Rudman-Hollings is sliding toward a balanced budget, we will add another one-half trillion dollars to the national deficit.

Another drawback is the kind of across-the-board budget cuts which would be mandated if there were a failure to act, a failure to seize this as an opportunity to explore cutting costs without cutting services, a failure to take advantage of the opportunity to encourage a redistribution of State, local, and Federal responsibilities, to lose the opportunity to inspire us to examine and reorder our priorities.

We can decrease our national indebtedness while building a stronger economy and a stronger country. We can do it intelligently, drawing on the experience of States which have a better record of fiscal management than the Federal Government has acquired, but we have to recognize and accept that the decisions we make will be painful.

We have to make cuts, in some cases deep cuts in programs. We can no longer use tax and revenue increases as a quick fix. We will have to sort out new ways of looking at the distribution of State and Federal responsibilities.

Our States have already taken the lead in providing services and State governments can supply that. Florida has consistently isolated and worked to fill the needs for better education, available and affordable housing, child care, international trade accommodations, clean air, clear water, and transportation, to mention a few, for our growing population—and we did it while keeping taxes down.

The chart indicates that for the years 1979 through 1980, through the last year for which information is available, 1983-84, Florida has been consistently in the lower ranks of the States in terms of taxation as a percentage of per capita personal income.

We have consistently spent less than our rate of growth while providing the services and infrastructure for a major growth State. Florida is ready and willing to shoulder its share of the burden. We have worked hard to be fiscally responsible. We have selected a limited focus for our activities and we have emphasized priorities and future needs. We have not tried to do everything.

We are not asking the Federal Government to do everything, but Florida or any other State cannot allow Washington's zeal for reducing the national debt to obscure the Federal responsibilities which our Constitution clearly defines.

In the Constitution of the United States, the Federal Government is delegated, by the States, the primary responsibility for providing for the defense of the Nation and the security of our borders. Florida understands, with a greater sense of urgency than other States, that we have lost control of our borders, for we are on the front lines.

Daily, the borders of Florida are assaulted by smugglers, profiteering from drugs or human cargo. Federal authorities admit, Mr. Chairman as you stated in your opening remarks, that we are capturing only a small percentage of what drug smugglers are bringing into this country.

It is estimated that 90 percent of that illicit cargo goes undetected. This is a shameful record. The daily violation of our borders degrades our quality of life. We can see it in the spillover in crime and ruined lives.

Florida, between 1981 and 1983, as State and local spending for law enforcement increased, the crime rate dropped 18.5 percent. Since 1983, however, the State has seen an increase in the amount of illegal drugs smuggled into Florida and a concurrent increase in the incidence of crime. We are doing our part.

There is no provision in the U.S. Constitution for any single State to assume responsibility for the protection of the Nation's borders. There is no such thing as a minor violation of our borders. Those planes and ships slipping past scattered patrols and surveillance now are carrying illegal aliens and drugs. Tomorrow those vessels could bring terrorists and bombs. What comes into Florida networks out across the country.

The Federal Government cannot consider cuts in the Customs and Air Interdiction programs, nor the U.S. Coast Guard budget, without abdicating its responsibilities to Florida and the rest of the Nation. The Federal Government should designate existing military resources to detect unidentified planes and ships entering our air and sea space.

This is not an expensive proposition, but it is a solution to a problem which has gone unresolved for too long. This is not a budgetary question. This is a matter of national sovereignty.

The National Government has signed a number of contracts with its citizens. Premier among these is the contract of Social Security. Social Security is a promise. It is a trust fund for those who worked hard to build this great Nation and to build an opportunity for their families.

Their financial stability should never be threatened by considered cuts in the Social Security system. It is the responsibility of Congress to assure that those contracts between the Nation and its citizens are adequately financed.

In the area of New Federalism, we must ask, what are the appropriate roles of the Federal Government and State and local governments. The National Governors' Association has suggested an approach to this issue.

Its essential analysis is that the Federal role should focus on those programs which require a national response and a uniformity of treatment, because in the absence of that there would be distortions of population movement as people move to those States which have higher levels of benefits.

The American population is a mobile one. Growth States attract the indigent and those on fixed incomes, as well as the financially secure and those still active in the workforce.

We must look for new ways in which the Federal Government can carry out its income maintenance responsibility. For example, in the area of health services for the elderly, in Florida we have adopted a program called Community Care for the Elderly, which has as its goal to maintain a healthy older population, to maximize independence.

When there is some need for dependent care it should be given in a community setting with the greatest degree of dignity and respect for the older person. We have identified the needs of our older citizens to live lives of activity and respect as part of their community. So, we have initiated this program, which today serves over 27,000 older Floridians, to fill their needs in their homes and community centers as an alternative to institutionalization.

The economics of this program are also very impressive. The national average is that 5 percent of all Americans over the age of 65 are in nursing homes. In Florida, the average is only 2 percent. Florida's ratio of nursing home beds to elderly population is only 22 per 1,000, one of the lowest ratios in the Nation.

We have a program which is both cost effective and compassionate. We must restructure our Nation's program of income maintenance for health care for our older citizens to emphasize those same principles of health, independence, and community care and in doing so we would be both germane and fiscally prudent.

Our current Medicaid/Medicare systems have other pernicious results. They virtually require that all personal resources be exhausted before Federal resources are tapped. Half the people in our State, Mr. Chairman, who are on Medicaid in nursing homes, entered the nursing home either on Medicare or on their personal finances.

We have a system which almost assures that those people are going to be driven into fiscal indigency before they then become eligible for a welfare program that will provide them long-term health care. That is a system which is bankrupt and it is a system which has the potential of bankrupting States with large numbers of elderly and the Federal Government.

I am afraid that the proposals that are currently before you are bankrupt of new ideas. A suggestion that has been made in the budget that has been presented to Congress, is not that we change the program to one that emphasizes independent health and community care, but rather that we shift the responsibility—either shift the responsibility to the older person or shift the responsibility to the States.

If I understand the proposal before Congress, for example, there would be a tax set of 109 percent of actual expenditures in the preceding year into the future. That means that a growth State like Florida, which is adding a disproportionate number of elderly to our Medicaid rolls, is going to be forced to either dramatically increase the level of State support or reduce the level of service. It also means that States like Florida, which are now beginning to add services which other States have had for many years, will be punished.

Senator Pepper asked me several years ago, while I was in the State senate, if Florida would consider adding things like eyeglasses and hearing aids, which have not been part of our Medicaid Program prior to that time, to our program. I am proud to say, Senator Pepper, at your urging, those are now a part of our program. If we were bringing those new provisions on today, however, faced with this arbitrary cap, it would be very likely that the State would have to rescind the extension of services and we would permanently be locked into a position of providing less care than is available to similarly situated elderly persons in other States.

That, Mr. Chairman, is an example of what I consider to be an important program in which the Nation has a role in New Federalism dealing with the question of income maintenance of a mobile population. In other areas, I think State and local governments are going to have to be prepared to accept more of the responsibility.

With Senator MacKay, I have been very active in the field of education in the legislature of this State. I recognize that education is primarily a State responsibility and that we as leaders of the State should be prepared to accept that responsibility. I think there is a Federal role in education but it is a discrete role.

Again, referring to the National Governors' Association analysis, I would suggest that there are four Federal roles in education. One is research. It is a better expenditure of funds to have a nationwide educational research initiative than to have each State doing its own parochial research.

Second, the Federal Government has a responsibility in civil rights enforcement, to see that equal opportunity is provided for all of our children.

Third, the Federal Government has the responsibility for children at risk. This is closely related to the fundamental Federal role of a mobile population. Some States have more migrant children than others, some States have more handicapped children than others, some States have more disadvantaged children than others. It is appropriate for there to be a national recognition of this uneven distribution and a national response.

Finally, the point I would like to discuss in some detail is the access to higher education. The young minds of America are a national resource. How much has America benefited by the GI bill of World War II, in terms of building a whole generation of a level of education that our Nation and no nation in the world has ever known before?

That recognition of the national resource and the appropriateness of a national program, to assure that there is access to higher education, is an important one for America's future.

In Florida, the Federal Guaranteed Loan Program accounts for $230 million of college expenses each year. That represents a total for Florida residents attending Florida schools. It does not take into account out-of-State students attending Florida colleges and universities or Florida residents matriculating in other States.

The value of that expenditure for an educated Nation is incalculable. In short, we are all in search of a coherent way to manage the Nation's money. If we take the time to determine which programs work and which do not, we will spend our dollars wisely. If we send clear signals we can minimize frustrations and budgetary woes. The confused message coming from Washington in recent years has made it more difficult for States to manage their own finances.

To give one example of this is the cigarette tax. Some time ago Congress passed what was stated to be a temporary increase of 8 cents in the cigarette tax and there was an implied statement that as that temporary tax lapsed, it would be available to States to pick up some of the costs that were passed along to the States in the early 1980's

Since that temporary tax lapsed, it has been extended on an incremental basis. The current extension runs through the spring of this year. The President has indicated, as recently as October, his intention to veto any permanent extension of the cigarette tax. Now, I understand that that tax is incorporated in the budget.

During this period of on and off consideration, half of the States, assuming that the Federal Government was serious about releasing these funds, have adopted them and incorporated them into their budgets. We have done that here in Florida and now we are faced with the serious question: How do we respond when our signals are so confused?

Florida has already faced many challenges which the rest of the Nation will be confronting in the next decade. We have made some tough choices. We are taking care of our needs as a State. Our future is one of promise and prosperity.

It is our responsibility, together, to see that we work together with the Federal Government to reduce the crushing Federal deficit.

It is our coincident responsibility to assure that national priorities are met, national concerns intelligently addressed and our State and our Nation work toward a strong and secure America. Thank you.

The CHAIRMAN. Thank you very much Governor Graham. Your testimony has been very pointed and very, very clear. Let me begin by asking you a couple of questions. Before I do I want to make the record very clear on a couple of issues.

Yesterday, the President in his press conference talked about those who were saying that his budget was dead on arrival. He stated he thought that might be an attempt to get revenues and that would be VOA, vetoed on arrival.

I want it to be known that this chairman of the House Budget Committee has said consistently that the President's budget is not dead on arrival. It is very much alive, particularly in light of the new budget law that has been installed.

Second, I want it to be very, very clear that this chairman of the Budget Committee has not put forth any calls for new revenues and you mentioned the issue of revenues yourself.

Are you familiar, Governor, with the tax amnesty program in Massachusetts, which does not raise any additional taxes of any kind, but apparently was succcessful in collecting revenues from folks who had not been paying their fair share? Do you have any view on that particular proposal and how it works?

Mr. GRAHAM. I have talked with Governor Dukakis, in fact, within the last week, on that and a number of other issues and he is very enthusiastic about how well it worked in Massachusetts.

We have discussed that with our State department of revenue and at this point we are not convinced that there is that much unpaid taxation outstanding in Florida that would make it a productive program. Of course, we are a State that does not have a personal income tax and much of the amnesty is for the personal income tax.

Speaking of tax administration, however, I will ask for one bit of assistance. Our State at one time had a unitary approach to corporate income taxation. We repealed our unitary tax, as have a number of other States, in part, on the representation of the U.S. Secretary of the Treasury, Donald Regan, that there would be reforms in the Internal Revenue Service and corporate tax collection which would help the State in dealing with some of its problems that had caused unitary to be adopted in the first place, such as mixed accounting procedures for multinational corporations.

I can say that now, some 1½ years after our repeal, that we have not seen any of that assistance forthcoming and I think it was not even beneficial to the Federal Government and its tax administration, but would be helpful to States if we got that kind of assistance and would not require the States to do things that are—at least by some of our trading partners—considered to be inappropriate.

The CHAIRMAN. Another question in the revenue area which you also mentioned. In the past years the President's budget has reduced the number of workers in the Internal Revenue Service. This year there is an increase providing for about 2,500 additional slots.

As an administrator of one of our great States and one who has worked very hard to maintain a fiscal balance and avoid high taxation, do you find that having greater staff ability also relates to the collection of outstanding taxes?

Mr. GRAHAM. Yes; we have consistently recommended, and the legislature has approved, additional audit capability and other enforcement mechanisms in our department of revenue.

We found that not only by the ability to increase the percentage of tax returns which are audited do you collect additional money, but the fact that the people know that there is a higher probability that they are going to be audited helps increase voluntary compliance.

We think that one of the best investments in terms of dollars spent to dollars returned is in adequately supporting a tax administration agency.

The CHAIRMAN. Let me ask you another question with regard to the cutbacks in the Drug Enforcement Agency, which I mentioned in my opening remarks and which you focused on. Knowing that a large amount of drugs come through Florida and go to other parts of the United States, how would Florida cope if these reductions are made in interdiction and control of the trafficking of drugs? Will the State government and local governments be able to make up for these reductions?

Mr. GRAHAM. The answer is no. We have seen over the last several years almost a doubling on an annual basis of the amount of cocaine coming into the United States, of which about 70 to 80 percent enters through the State of Florida.

We have seen no significant increase in the percentage of that cocaine which is being detected. We have seen a dramatic drop in the street cost of cocaine which is a function of increased supply.

I was in Orlando yesterday, Mr. Chairman, and met with the sheriff of Orange County who told me of a sample group of 25 persons who have just been incarcerated in the Orange County jail for a property crime, that 15 of those 25 were cocaine users and were involved in property crimes in order to support their cocaine habit.

So, it is not just a crime of drug trafficking, it is all of the things that drug trafficking then leads to in order to financially support it. I might say that I believe that the focus on drug trafficking is focusing on a symptom, insofar as it relates to the transport of it into the United States. The problem is, we have lost control of our borders.

The exact same aircraft which today is transporting a load of cocaine into a south Florida location, could be bringing in a terrorist and a bomb. If it goes undetected with cocaine, it is going to be just as undetected with three terrorists and nitroglycerin. It is the question of our national sovereignty. No nation can talk about national defense unless it is able to secure its own borders. We have lost control of our borders.

The President of the United States has said that no nation can survive surrendering its borders. I agree and therefore I think that while it is important to support these law enforcement agencies it is even more important to direct the military to accept this as part of their national defense capability and responsibility.

The CHAIRMAN. Two last questions before we turn it over to the other members of the committee. You talked about what you thought the Federal role should be in education. You were quite specific in delineating the four areas.

When I look at the fourth one, access to higher education and at the budget that was presented to us, it calls for a $2 billion reduction in Federal aid to education. It calls for a $3.2 billion reduction in guaranteed student loans, as well as a $3.2 billion reduction in Pell grants, which as you know go to the poorest and neediest young people in our society.

It also consolidates the College Work Study Program and Supplemental Educational Opportunity Program together and then reduces the combined total by 58 percent. It eliminates the State Student Incentive Program.

Have you and your administration had an opportunity to look at those figures and estimate what impact it will have on Florida? Because Florida is virtually a storehouse of educational knowledge and institutions—having two right here in Tallahassee. What impact does that budget priority have upon the State of Florida in terms of FSU, FAM, University of Miami, et cetera, and the community colleges?

Mr. GRAHAM. Mr. Chairman, the answer to that question is: I have asked our student financial aid administrators to do that analysis. I would like to take advantage of your offer to supplement the record and submit a specific, detailed response to that question.

One of the things we are proudest of in Florida is what has happened in our State in terms of high school students attending higher education. In 1950, we had less than 20 percent of our high school graduates go on to some form of higher education. Today, that figure approaches 60 percent and that tremendous increase has, in part, been a result of removing some of the economic barriers to access to higher education through the types of programs that you have developed.

The CHAIRMAN. Thank you Governor. I yield to the gentleman from Florida, Mr. Mack.

Mr. MACK. Thank you Mr. Chairman. Thank you for your comments, Governor. The difficulty, I think, that all of us face is that at some point between now and October 1, we have to get fairly specific.

I think that one of the things that is going to happen as a result of passage of the Gramm-Rudman proposal last year, is that we are for the first time being given the opportunity to choose between priorities. Certainly you have indicated some of the priorities that are important, I think, to you and also to the State of Florida, including the question of drug interdiction and health care.

But I think my question is that each time that we set aside a particular program for priority, we have to be willing to do one of two things. Either we have got to say what is the revenue source to pay for it or where are we going to eliminate some program that is not of the same priority.

I would like to ask you to address the question of, for example, in Medicare and Medicaid, if we have to invest greater dollars into those programs, where are we going to get the money to do it or which programs are we going to eliminate to pay for them?

Mr. GRAHAM. Well, I was really trying to present an intellectual way to approach that problem so it did not end up just being a grab bag of saying we have to trade A against B, et cetera. I am saying that the first responsibility of the Federal Government is to effectively carry out those programs which are national, fundamental obligations because if you do not do it there is no backstop for those programs.

If you do not effectively deal with issues such as the naturalization policy—a constitutional responsibility of the National Government to protect the national defense—there is no other alternative and it will go undone or poorly done.

Then there is the difficult question in those areas where there has been a tradition of shared responsibility. Which ones of those should be accepted by the States fully, which ones should be accepted by the Federal Government fully?

I have a basic belief that it is a disservice when you have multiple levels of government involved in a program and I would cite some of our transportation programs where we spend almost as much money in the processing of the paperwork between levels of government as getting on with the business of providing the transportation service.

My orientation would be toward singular assignments of responsibility to the maximum extent possible. In the area of the specific case we cite on Medicaid and Medicare, there is a third dimension, that is the Older Americans Act.

The Older Americans Act is the act which covers most of the prevention and wellness programs and yet it is over in the exposed category, whereas some of the other programs are to some degree more sheltered. I was in St. Petersburg yesterday and was told that their program of providing for adult day care, particularly for Alzheimer's victims, is going to be cut back by 15 to 20 percent as a result of the reduction in the Older Americans Act.

That means that those 15 to 20 percent will probably end up in nursing homes. Instead of costing only a few dollars to keep them in adult day care under the Older Americans Act, they are going to be costing multiples of that to keep them in nursing homes. I think——

Mr. MACK. If I could, let me go to another area.

Mr. GRAHAM. So, I think what we need to do is to rethink what our objectives are in these contract programs, and I consider Medicare to be a contract program, to try to see that there is a financial base developed while the person is still working, sufficient to support the cost of delivering on that contract when they are no longer able to work and to emphasize wellness and independence and not the high degree of institutional care which the current programs tend to stress.

Mr. MACK. You mentioned the word contracts, let us get back to that if I could. The establishment of a contractual relationship between a beneficiary or recipient and the one that is always on the top of everyone's list is Social Security. Frankly, I think that with the leadership of Senator Pepper, that question of whether reductions in Social Security are going to be part of deficit reduction I think has been satisfactorily answered.

As far as the Congress is concerned, those are off limits, but there are some other contracts, at least the people who are receiving them feel they are contracts. For example, Federal retirees, military retirees, who left the service of our country with the contract that they were going to receive payment, but yet we see that their COLA's are going to be eliminated. Do you consider those to be a contractual relationship?

Mr. GRAHAM. I do in both of those instances, particularly in the military. People endured difficult service, family separation, low pay for the time that they were serving the Nation, in part, in expectation that when they did retire they would have adequate financial securtiy. I think that that is a contract. What is important is that that contract be financed on an ongoing basis. Here in the State of Florida, every year in our budget, we put aside what is actuarially required. In fact, we have a constitutional requirement that we must maintain an actuarially balanced pension retirement program so that when people retire they do not have to depend upon the kindness or the largess of an individual section of legislature. They have an actuarially sound finance pension retirement system. I think that that is an expectation which Federal retirees, military and civilian, similarly have the right to expect.

Mr. MACK. If I could, one final question and then I will let others ask their questions. The one thing that those of us involved in politics absolutely hate is someone who really presses and says OK, I understand everything you said, but where do we really make the cut? If you had to tell this panel, what are some of the programs of the least priority? I mean again we have a $1 trillion budget. Certainly, there has got to be someplace that we can look and say that we could make reductions.

Mr. **Graham**. Everything that I did not say should be protected under that discretionary category, for instance, in education, in the field of transporation. I am very concerned about this multiple layer of responsibility that we have entered into. I think and I believe, that this is something that all Floridians would feel, particularly those who are familiar with southwest Florida. We have an obligation to complete the Interstate System, so that all the country is served uniformly, but once we have done so, ought to rethink the Federal Government's responsibility in continuing highway construction and maintenance projects. Is that not really more appropriately a State-local responsibility? I believe that there are many of the domestic programs which do not meet that standard of relating to a mobile population, which requires a national involvement in order to avoid disfunctionality of population movement that ought to be accepted at the State and local level, and in Florida, we are prepared to do so.

Mr. **Mack**. Thank you, Governor.

The **Chairman**. The Chair yields now to the other gentleman from Florida, a member of the committee, Congressman Buddy MacKay.

Mr. **MacKay**. Governor, I appreciate your comments. It would seem to me that one of the areas that would be an alternative to just a kind of zero sum solution, would be to have the Federal Government look more closely at some of the innovations that have occurred at the State level and specifically our community care program. You and Senator Pepper and I were working last year and the year before, trying to get a waiver to allow a rapid and dramatic expansion of that and thus far, the waiver, we have been told, is not going to be possible. It would seem to me that is an example of a place where money could be saved and we could do a better job.

Mr. **Graham**. It requires you to ask a different set of questions. It has been said that the ultimate form of human stupidity is forgetting what it is that you are trying to accomplish and I think that happens frequently, in that we get involved in the processes of a specific program and we fail to add what it is that we are trying to accomplish. I do not think the Nation wants to accomplish a health care system for its elderly which insures maximum cost, maximum dependence and almost assure—if you live long enough you can be pretty well assured that you are going to be in poverty when you die. That is not a very intelligent national health care system for the elderly. Yet, that essentially describes the program that we have today and it does not have to be that way because there are enough examples here in this State and I am certain this committee will hear others as you travel around the country, of systems that work to achieve a more humane end result.

Mr. **MacKay**. Thank you, Mr. Chairman.

The **Chairman**. The Chair now yields to the gentleman from New York, Mr. Schumer.

Mr. **Schumer**. Thank you, Mr. Chairman. Thank you, Governor. This is the first time I have heard you testify. Your outstanding reputation has preceded you and I can see why. You also have made me feel a little more at home here. When I arrived in Tallahassee for the first time just a couple of hours ago, the first sign I saw at the airport said "Welcome to Tailahassee, Home of the Rattlers"—and I was tempted to get on a plane and go back to New York. [Laughter.]

If that is what you are advertising around here——

Mr. GRAHAM. Those are rattlers that only strike people like Tuskegees and——

Mr. SCHUMER. And Seminoles and things like that. I understand that now, but I did not quite understand when I got off the airplane. [Laughter.]

We do not have rattlers in Brooklyn. [Laughter.]

At least not that type. [Laughter.]

In any case, in the House Budget Committee we have a very tough road ahead of us because it really is almost impossible to cut a $200 billion deficit from a $1 trillion total budget. That is 20 percent right there. On top of that you must consider all the programs that ought to be off limits from cuts, and I am in agreement with you on just about all of those programs, that we should not cut. For example, Social Security—we should not cut that. And then, there are the existing contracts in national defense. When all of these various programs are considered it leaves very little in terms of a base to cut from. So, the question is, eventually when the American people learn the choices, would they be willing—and I know our chairman is not calling for this—but would they be willing to agree to some kind of revenue increase? Now I realize taxes is a dirty word. But I believe our good Senator Pepper mentioned that over 100 of our largest corporations and large numbers of billionaires pay no taxes. What would be your view, Governor, of a minimum tax that said that any corporation or any individual making over $150,000 should pay 20 percent of its income as taxes as a way of reducing the deficit?

Mr. GRAHAM. OK, without responding to the specifics of the proposal that you made, I think that—I believe that before you start to consider the question of additional revenue, that the committee would be well served to go through this intellectual process that I have attempted to outline. I think if Americans felt that the basic constitutional responsibilities of the Federal Government could not be conducted with what, I think, is now about 19 to 20 percent of the gross national product—if it takes more than 19 or 20 percent of gross national product to do those things for which the Federal Government is constitutionally responsible, such as protecting the security of America, I think Americans would be prepared to pay for that. But I do not think they are going to be prepared to do that until they see just what the cost of those constitutional responsibilities is for supporting contractual obligations between the Government and its citizens and those federalism programs which respond to this narrower focus that I have suggested.

Mr. SCHUMER. Fine, thank you. Let me ask you a second question. You and I are in agreement that we need some kind of control of our borders. In fact, you were instrumental in helping mold Congress' opinion on the need for an immigration bill. Now one of our problems with an immigration bill this year is very simply that last year, as you may remember, there was a dispute between the States and the Federal Government as to how much reimbursement there ought to be. That will be a new fiscal responsibility, but as you correctly point out, it has been our constitutional responsibility all along. Do you have any comments on whether or not we should proceed with an immigration bill if we cannot reimburse the States fully for the cost that would be incurred?

Mr. **Graham**. If you have a Federal immigration bill that is sufficient and a number of people who can legally enter the country and the commitment of Federal resources to the restraint of illegal entry, then I do not think there would be any necessity for reimbursement to the States. Right now what is happening is we have a supposed cap on the number of legal entries and then allow about three or four times that many illegally to enter the country at tremendous costs to the communities in which they settle.

In this State, places like Jackson Memorial Hospital, shows probably 20 percent of its $82 million unreimbursed charges are for illegal refugee patients and I think that as long as the Federal Government has abdicated the defense of our borders, it should not then abdicate the financial responsibility that flows from that lack of defense. Do one or the other, either defend our borders or be prepared to accept the financial cost. But do not let the walls down and then expect local communities and States to pay the price. I think some 40 out of all the counties in America carry 80 or 90 percent of the burden and those 40 counties could essentially become international refugee centers, paying refugee costs out of their own resources. That is not a rational national policy.

Mr. **Schumer**. I thank you very much for your thoughtful answers, Governor.

The **Chairman**. The Chair now recognizes the gentleman from Washington, Mr. Lowry, a senior member of the committee.

Mr. **Lowry**. Thank you, Mr. Chairman. Thank you, Governor, for your thoughtful testimony. I am just as far as you can get from the State of Washington within the continental 48, contiguous 48, and your reputation has reached the State of Washington. I think for good reason. You have been an excellent Governor, but also I would just make a side note that I want to congratulate you on your courage on the Ted Bundy decision here, which I know was a tough decision. Ted Bundy came from the State of Washington and I want to congratulate you on your courage and decision.

I came here because of things that I know are of particular importance to the citizens of the State of Florida that are not necessarily what I would be that aware of in the State of Washington. I made three airport changes to get here last night and, in a democratic republic, I think it is very important that the citizens in this country have an opportunity to testify on one of the most important documents which is the budget.

I would like to ask you two questions that might be relative. In the proposed budget of the President, the budget assumes $242 million of new Coast Guard user fees on recreational and commercial marine users. It goes to $480 in 1988 and is planned to pay for 25 percent of the Coast Guard by Coast Guard user fees on recreational and commercial marine users. What do you think is the opinion of the people in the State of Florida on Coast Guard user fees for financing 25 percent of the Coast Guard?

Mr. **Graham** I have found that when you suggest user fees, you tend to get very strong opposition from those who are going to pay and not very much support from the general population. I happen to not have any particular adverse reaction to user fees where a group is getting a peculiar and special benefit.

We have tried to set some standards of what those fees should be and they essentially have been that where a person is getting an economic benefit, they should pay 100 percent of the cost of whatever regulatory mechanism was necessary. Where you were dealing with a mixture of personal use, plus environmental protection, such as the operation of the State parks, which both benefits the user but also has a general public benefit, the user fee should be 50 percent of the cost of operating that program.

In higher education, we have set a policy, although a very controversial one, that the student tuition should be 25 percent of the direct instructional cost. That is a policy which the Board of Regents has not supported and I think we will move in that direction. So the idea of saying a percentage of what the user should pay of the total cost of delivering a service, I think is an intelligent one and it is one that helps keep the fees constantly adjusting so that you do not have big, stairstep increases because old needs have been allowed to go unaddressed to a period of time.

Mr. LOWRY. One of the reasons you have good fiscal control in this State, we have a budget presented by an administration that is against any revenue increase. Is funding 25 percent of the Coast Guard with a new revenue source called a user fee, is that a revenue increase?

Mr. GRAHAM. It is a revenue increase.

Mr. LOWRY. I thought perhaps you might almost call it a tax. You mentioned that the 109 percent cap on the Medicaid growth would be detrimental to the State of Florida invariably. Why is that? Why would a 109 percent cap be detrimental if in the State of Washington it is all right?

Mr. GRAHAM. Well, first, because we are a State that each year is growing at a rate of about 150,000 people over the age of 60. So, that would mean that since most of our Medicaid budget goes to the persons over the age of 60, that rapid increase in the potential user population means that, very quickly, we will be well beyond the 109 percent, even if we are delivering the same level of services.

The second problem is, we were a State that got in the Medicaid business relatively late in the 1960's and we have been adding additional services, such as providing eyeglasses and general services. We are still trying to reach out and provide a qualitatively superior program. A program that would be the equivalent of what is now being offered in many States in the Northeast and Midwest. By putting 109 percent on your last year's level of expenditures, you effectively cut off the opportunity for those States that are providing less than the national standard of service, to even get to a national standard. You have locked them into permanent second-class citizenship in terms of health care for the medically needy.

Mr. LOWRY. To continue on your existing program, what would be your estimate of percent of growth in Medicaid relative to the 109 percent?

Mr. GRAHAM. Well, in other words, if the Federal Government decides we can only spend *x* amount of money on Medicaid, there are more rational ways to allocate than to put a percentage cap.

State by State, on a previous year. You can say, have all the States submit what their eligible programs are, based on the number of eligible participants and the level of services which they propose to provide within the Federal guideline and then every State will get 94 percent of its budget funded. That at least would contribute the money in a rational pattern.

My problem is that we are dealing with this issue as an accounting issue and it is not an accounting issue, it is an intelligence issue asking what are we trying to accomplish. What we ought to be trying to accomplish is to structure an elderly health care system that will keep people well as long as possible. When they get less than fully independent, we will provide them cost-effective, humane, community-based service and we will rely on institutions only as a last resort. I think that within the current revenue stream, that with some of the changes, such as that which Representative MacKay outlined, the efforts that he and Senator Pepper have undertaken to try to get a Medicaid waiver, that we could use our existing resources more effectively to accomplish our objective of a well, elderly population.

Mr. LOWRY. Thank you.

The CHAIRMAN. The Chair recognizes the gentleman from Florida, Mr. Pepper.

Mr. PEPPER. Thank you, Mr. Chairman. Governor, I would like to ask you two questions. The first is, I read in a Florida paper, that you, in making some statements, had said among other things that you favored cutting Social Security, too. Was that a correct statement attributed to you?

Mr. GRAHAM. Congressman Pepper, that could not have been a more incorrect statement and I understand that that paper has now published a correction of that misstatement.

Mr. PEPPER. Well, those of us that know you and your record knew that there was a misprint, an error somewhere and I'm glad there was a correction.

In summary, Governor, is it not a fact that the President's budget and the program known as Gramm-Rudman, will curtail seriously, if not severely, programs of the State, the counties, and the municipal governments in Florida for the elderly and recipients of education at the higher and secondary levels, those who receive medical care, and those who receive other benefits such as public transportation and the like? In other words, is it not a fact, that there is going to be a serious curtailment, if not a severe curtailment, in Federal funds for all those recipient agencies and individuals in Florida?

Mr. GRAHAM. Yes, that is true. We estimate that from now until September 30, that the automatic cuts will result in a reduction of approximately $30 million of existing levels of Federal support for State programs. That $30 million is distributed among transportation, health care, education, services for the elderly and that over the fiscal year which begins October 1, if the Gramm-Rudman automatic cuts go into effect, that we will be looking at another $75 to $100 million of additional reductions and those cuts are going to be painful. They will be most painful if they are done in an across-the-board way that leaves every program in effect, just a miniaturization of it.

One thing that hurts the States is that as the dollar is reduced, the regulatory constraints do not reduce. It takes as much effort to manage a program in which you get $500,000 as a program in which you get $5 million. So I think this is an opportunity to look intelligently at Federal-State relationship, Federal fundamental responsibilities, the contract programs and to develop what could result in a stronger system of government by a clearer and more committed to adequately finance a set of national priorities.

Mr. PEPPER. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Governor. You have stayed much longer than you were supposed to. We are running behind, but we will move quickly ahead. Thank you very much, Governor Graham, for your testimony. It has been very valuable.

Mr. GRAHAM. Thank you.

The CHAIRMAN. The Chair now calls County Commissioner Harvey Ruvin of Dade County and also Mayor Bill Kline of the city of Sarasota to come to the witness table. We will receive their testimony on local government issues facing us in the fiscal year 1987 budget.

The Chair would like to announce that we are hopeful that we can speed up our process. We ask the social services, Medicare, Medicaid, and retirees panel to be patient, and also the business, economic development, and job training panel. We should be able to make up some of the time that we are behind.

Commissioner Ruvin, Mayor Kline, we welcome you to these proceedings and field hearings of the House Budget Committee. We would ask you to summarize your testimony. Your testimony in its entirety will be submitted for the record. Please highlight the features that you want to make, so we can get into questions. Let us begin with county commissioner of Dade County, Harvey Ruvin. Then following Mr. Ruvin, Mayor Kline.

Mr. PEPPER. Mr. Chairman, Mr. Ruvin is one of our county commissioners. He is a great one.

The CHAIRMAN. With that recommendation——

Mr. RUVIN. I think I will conclude my remarks now. [Laughter.]

The CHAIRMAN. Commissioner, feel free.

STATEMENT OF COUNTY COMMISSIONER HARVEY RUVIN, DADE COUNTY

Mr. RUVIN. Good afternoon, Mr. Chairman, members of the Committee, Senator Pepper. It is indeed an honor to be here today to address the very difficult issues which you are facing across this country. I certainly have great empathy for each of you in dealing with such extremely complicated and very far-reaching issues that affect all of us in this Nation. It has just occurred to me, Representative Schumer, where we have met. We met several weeks ago while we were both enjoying the hospitality of Mayor Koch in dealing with the issue of loss of revenue sharing.

Yes, my name is Harvey Ruvin. I am a county commissioner from Dade County, FL, a county that is very proud to have three outstanding Members of the House of Representatives, one of which is here today, our most distinguished Senator—our Congressman Pepper. I serve today as the executive vice president of the

National Association of Counties and if Dade County continues to have the funds necessary to pay its dues to the National Association of Counties, I will be able to serve as its president in 1987.

Of course, I have submitted for the record my full remarks and I will in fact condense them and try to hit just a few highlights because I understand that we are over schedule now and we are going to try and conserve that time.

I would like first to give you a broad overview of our position on the budget and then highlight a few very specific programs. I would like to point out the Nation's county government officials support equitable efforts to reduce the Federal deficit and recognize——

A VOICE FROM AUDIENCE. The speaker must be turned off, we cannot hear anything back here.

Mr. RUVIN. OK, maybe that cleared the pipes a little bit.

A VOICE FROM AUDIENCE. Pull it closer.

Mr. RUVIN. All right, thank you very much. And we have adequately participated in developing solutions to the Nation's fiscal problems and since the late 1970's, NACo has supported cuts in certain Federal domestic assisted programs and has worked with Congress and the administration to share the burden in an attempt to balance the national budget. We have absorbed, in Dade County alone, over $120 million in budget cuts since 1980. So, the President's 1987 budget proposal again proposes to cut deeply into programs that are vitally important to local government and particularly the middle and lower income citizens of our communities.

Increasing defense spending at a rate of 8 percent above inflation, would be done at the expense of maintaining adequate public services. Our Nation's roads, educational systems, health care, environment, in short, the very quality of life that we enjoy, would indeed be threatened if Congress accepts such draconian cuts.

If adopted, the President's budget further shifts national spending priorities more than it resolves the Federal deficit. It continues the trend of Federal expenditures from 1980 to 1985, which in real terms increased defense spending by nearly 40 percent while decreasing State and local program funding by 24 percent. In the 1987 budget, the administration proposes that for every dollar a citizen pays in taxes, only 10 cents will go back for State and local services and defense will receive 28 cents. Because of this trend, the NACo Taxation and Finance Steering Committee, for the first time, has urged the overall NACo membership to call for restraint in defense spending. Such a resolution will be considered at our legislative meeting in March. So, I wanted to begin by responding to the loaded question that if that does come up certainly one of you have to answer and one that I should be willing to address here as well.

County governments, as I said, have accepted our fair share of budget cuts. The large decrease in State and local grants has not served—the large decrease rather, in State and local grants has not served to decrease the Federal deficit, as we had been led to believe. In fact, the deficit has continued to climb. Savings from reduced domestic spending have been shifted to increases in other program areas.

There are a few specific programs I said I would like to highlight. One is general revenue sharing. Reauthorization of general revenue sharing is the National Association of Counties top priority. Besides requesting no authorization, the President proposes to rescind the entire October 1, 1986, fourth quarter payment. In its 12-year existence, the program has attracted substantial profit reinvestment.

General revenue sharing is an important part of county budgets. In Florida, it represents 6.6 percent of county governments' budgets. Nationally, 62 percent of the counties we surveyed, use it for health care and social services, and this trend is increasing to fill the gaps of the Federal cuts. When asked, they tell us elimination of this program will mean higher taxes in some communities and reduced services in those with declining tax bases or which have reached their maximum tax levy under State law. In Florida, we have a 10-mill cap and most of the urban areas in Florida are at that or quickly approaching it and the others have had their tax base further eroded by changes in homestead exemption provisions that really require a very escalating rate of property taxes. Property taxes in Florida, no question about it, are overburdened and we need some relief in that area. I can give you an example of Dixie County in Cross City, FL, where the GRS there is equal to 1.5 mills on their property taxes, a county that is already at the 10 mill cap.

In Dade County, all of our general revenue sharing funds have gone for social services, for mental health, for mental retardation, for alcoholism, and drug abuse programs. In fact, it was the primary source of funding for our family social services, services for the aging, including day care, for a shelter program for abused spouses. With the loss of general revenue sharing, we possibly face some very tough choices, choices between the elderly and our children, unless we find additional revenues or shift priorities in our already tight budget and we have very limited funds that are discretionary as well, Representative Mack.

Gramm-Rudamn overshadows much of our county and State finances. Yet, the fiscal planning services that we have, have recently estimated that the possible fiscal 1987 Gramm-Rudman cuts would leave Florida with a deficit of nearly $338 million. General revenue sharing is essential to filling those possibly huge gaps.

We talk about Gramm-Rudman as a solution to the dilemma or a prevention from visiting upon our children and future generations this great debt. As a matter of fact, I have a letter here entitled Dear Friends, from Phil Gramm of Texas, in which he repeats this same term that I keep hearing, that we have got to do this, we have got to take this bitter pill because it is imperative to our way of life. We believe that it is wrong to live beyond one's means and then try to pass the debt on to our children. I submit that what we are doing now will pass upon a—a legacy upon our children and future generations, much worse, a legacy of unfilled social needs, a legacy of never coming out of the transition which we forget that we are still in, from a transition trying to reach the time when we will have shortened or limited the disparity between races in America.

We still have a very difficult racial problem in south Florida, one that we made promises with regard to dealing with at root causes.

Those promises need to have financial support and Federal funding to give us the ability to do that. The interstructure—the aging interstructure of America is becoming more and more of a problem as the previous years of budget cuts have forced us into deferred maintenance. Those are essentials in this country that we need in terms of building not only the economic recovery of this generation, but to base the economic future of America on, so that we—so that if we are saying we cannot pass the debt along, then let us try to pay that price today, rather than to take it out of the hides of those that need these services the very most. So, I think that we can see a little demography in that kind of usage of the language and I wanted to point out that that really is a two-edged sword.

In regard to Medicaid, we know that health care is costly because 34 States hold county governments legally responsible for indigent care. In Dade County, where the Governor referred to Jackson Memorial Hospital before, which has nearly $100 million in unpaid refugee costs, we continue to have to supplement and to subsidize that hospital for the indigent with property taxes. Now, we cannot do that any longer because we have reached the limit or closely to that limit of the 10-mill cap.

I have highlighted a number of the programs in testimony. I am just going to talk about one other one, if I can, and that is community development block grants. There is no question that in the last 10 years this program has been the central program in trying to deal with the human, the social, the economic development improvement in communities all across this country. The present proposal of one-half billion dollars, when added to Gramm-Rudman and last year's cut, will mean that we are looking at a 31-percent reduction in this program. This will have a drastic effect all across this country. I can tell you that in Dade County it will devastate the programs that we now are committed to and that we budgeted for in this last quarter dealing with housing for the elderly, dealing with providing some interstructure that will bring about jobs and economic development in dealing with a lot of the human root causes of poverty and crime in our areas and we see this as perhaps one of the cruelest cuts of all and this is a deferral. It requires actions by both Houses to deny that deferral and I would urge that my—although, it may be a peripheral issue to that which you have called this hearing on, it does relate to the budget very strongly and I would urge that that action be taken to avert those deferrals.

You know, if we were talking here about some sinister foreign government planning and plotting to undermine the very viability of State and local government in this country, if we were talking about some sinister foreign government, perhaps planning to make unusable by bombing or some other cause all the day care centers, all the senior centers, to poison all the hot meal programs and make them uneatable, to do violence to all of the programs that now are being presented and provided to needy clients all across this country, there would be no question that we would all stand and vocalize against it. But it is not some sinister foreign government, as Pogo said, it is really ourselves.

I think we have to address the fact that we have got some runaway spending in that defense budget. That is one place to find some of the answers to the deficit. This is not a position of the National Association of Counties as yet, but I think that it will be soon and I think also, there is a clear opportunity, at least to consider some revenue enhancement in the form of an energy tax.

There was a picture in the Miami Herald this morning that showed gasoline being pumped out of pumps that was less than $1. Americans somehow got over paying that extra 20, 30, 40 cents above that figure, that they had been paying into the coffers of OPEC. I think that they could handle, if it was explained right, paying a portion of that to reduce the deficit. So, I think any discussion has to begin with, at least an open mind, with regard to some revenue enhancements that should be considered and not just—not considered out of hand and not put on the table because then we are faced with having to take it all out of the discretionary areas of human and social services. And may I say that if you do that, those problems will not go away and they may visit upon us much more costly results than we could ever dream, in terms of the human devastation and in terms of dollars, too, because there are communities where those funds were denied economic development and where the populations will be driven by a desperate anger.

We forget—you know, I have heard this particular administration talk about Government not—that Government should not be involved in social progress or social causes. We forget that much of what we are doing here is not aggressive Government being involved in social problems, it is Government responding to social problems. Let us roll that thought back. In Dade County, you do not have to roll it back much earlier than 1980 and 1981, but look back to Detroit and Watts and see that there are problems festering in this country that have to be dealt with and that is just a small part of what I am talking about. I am talking also about the needs of the elderly. I am talking also about the whole range of problems—of local governments involved in the everyday quality of life to the average citizen, to the middle and lower income citizen as well. It is all the citizens.

So, I would simply conclude by sharing an empathy with you that this is not an easy problem and if it was it probably would not have an easy solution and that the National Association of Counties, Dade County, and I think all officials that are elected in this county share the burden with you of dealing with this problem. Thank you for the opportunity. I will be glad to answer any questions that you have either now or after Mayor Kline's comments.

[Testimony resumes on p. 370.]

[The prepared statement of Mr. Ruvin follows:]

PREPARED STATEMENT OF HARVEY RUVIN

GOOD MORNING MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I AM HARVEY RUVIN, COMMISSIONER IN DADE COUNTY AND SECOND VICE-PRESIDENT OF THE NATIONAL ASSOCIATION OF COUNTIES. THANK YOU FOR THE OPPORTUNITY TO RESPOND TO THE 1987 BUDGET PROPOSALS. IN MY TESTIMONY, I WOULD LIKE TO FIRST GIVE YOU A BROAD OVERVIEW OF OUR POSITION ON THE BUDGET AND THEN HIGHLIGHT A FEW SPECIFIC PROGRAMS.

THE NATION'S COUNTY GOVERNMENT OFFICIALS SUPPORT EQUITABLE EFFORTS TO REDUCE THE FEDERAL DEFICIT. COUNTIES HAVE ACTIVELY PARTICIPATED IN DEVELOPING SOLUTIONS TO THE NATION'S FISCAL PROBLEMS. SINCE THE LATE 1970'S, THE NATIONAL ASSOCIATION OF COUNTIES (NACo)* HAS SUPPORTED CUTS IN CERTAIN FEDERAL DOMESTIC ASSISTANCE PROGRAMS AND HAS WORKED WITH CONGRESS AND THE ADMINISTRATION TO SHARE THE BURDEN IN ATTEMPTS TO BALANCE THE NATIONAL BUDGET.

THE PRESIDENT'S 1987 BUDGET AGAIN PROPOSES TO CUT DEEPLY INTO PROGRAMS THAT ARE VITALLY IMPORTANT TO LOCAL GOVERNMENT AND PARTICULARLY THE MIDDLE- AND LOWER-INCOME CITIZENS OF OUR COMMUNITIES. INCREASING DEFENSE SPENDING AT A RATE OF EIGHT PERCENT ABOVE INFLATION WOULD BE DONE AT THE EXPENSE OF MAINTAINING ADEQUATE PUBLIC SERVICES. OUR NATION'S ROADS, EDUCATIONAL SYSTEMS, HEALTH CARE, ENVIRONMENT--IN SHORT, THE QUALITY OF LIFE THAT WE

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* The National Association of Counties is the only national organization representing county government in the United States. Through its membership, urban, suburban and rural counties join together to build effective, responsive county government. The goals of the organization are to: improve county government; serve as the national spokesman for county government; act as a liaison between the nation's counties and other levels of government; achieve public understanding of the role of counties in the federal system.

ENJOY--WOULD INDEED BE THREATENED IF CONGRESS ACCEPTS SUCH DRACONIAN CUTS.

IF ADOPTED, THE PRESIDENT'S BUDGET FURTHER SHIFTS NATIONAL SPENDING PRIORITIES MORE THAN IT RESOLVES THE FEDERAL DEFICIT. IT CONTINUES THE TREND OF FEDERAL EXPENDITURES FROM 1980-1985 WHICH IN REAL TERMS INCREASED DEFENSE SPENDING BY NEARLY 40 PERCENT WHILE DECREASING STATE AND LOCAL PROGRAM FUNDING BY 24 PERCENT. IN THE 1987 BUDGET, THE ADMINISTRATION PROPOSES THAT FOR EVERY DOLLAR A CITIZEN PAYS IN TAXES, ONLY A DIME WILL GO BACK FOR STATE AND LOCAL SERVICES AND DEFENSE WILL RECEIVE 28 CENTS. BECAUSE OF THIS TREND, THE NACO TAXATION AND FINANCE STEERING COMMITTEE, FOR THE FIRST TIME HAS URGED THE OVERALL NACo MEMBERSHIP TO CALL FOR RESTRAINT IN DEFENSE SPENDING. SUCH A RESOLUTION WILL BE CONSIDERED AT OUR LEGISLATIVE MEETING IN MARCH.

COUNTY GOVERNMENTS HAVE ACCEPTED MORE THAN THEIR FAIR SHARE OF BUDGET CUTS. THE LARGE DECREASE IN STATE AND LOCAL GRANTS HAS NOT SERVED TO DECREASE THE FEDERAL DEFICIT, AS WE HAD BEEN LED TO BELIEVE. IN FACT, THE DEFICIT HAS CONTINUED TO CLIMB. SAVINGS FROM REDUCED DOMESTIC SPENDING HAVE BEEN SHIFTED TO INCREASES IN OTHER PROGRAM AREAS.

THERE ARE A FEW SPECIFIC PROGRAMS I NOW WANT TO HIGHLIGHT.

GENERAL REVENUE SHARING

REAUTHORIZATION OF GENERAL REVENUE SHARING IS NACo'S TOP PRIORITY. BESIDES REQUESTING NO AUTHORIZATION, THE PRESIDENT PROPOSES TO RESCIND THE ENTIRE OCTOBER 1, 1986 FOURTH QUARTER PAYMENT.

GENERAL REVENUE SHARING IS AN IMPORTANT PART OF COUNTY BUDGETS. IN FLORIDA, IT REPRESENTS 6.6 PERCENT OF COUNTY GOVERNMENTS' BUDGETS. NATIONWIDE, SIXTY-TWO PERCENT OF THE COUNTIES WE SURVEYED USE IT FOR HEALTH CARE AND SOCIAL SERVICES, AND THIS TREND IS INCREASING TO FILL IN THE GAPS OF FEDERAL CUTS. WHEN ASKED, THEY TELL US ELIMINATION OF THE PROGRAM WILL MEAN HIGHER TAXES IN SOME COMMUNITIES AND REDUCED SERVICES IN THOSE HAVING A DECLINING TAX BASE OR WHICH HAVE REACHED THEIR MAXIMUM TAX LEVY UNDER STATE LAW. FOR EXAMPLE, IN DIXIE COUNTY, (CROSS CITY) FLORIDA, GRS IS EQUAL TO 1.5 MILLS ON PROPERTY TAXES--A COUNTY THAT IS ALREADY AT THE 10 MILL CAP.

IN DADE COUNTY IN 1984, THE MOST RECENT COMPLETE DATA AVAILABLE, ALL OF OUR GRS FUNDS WENT TO SOCIAL SERVICES, MENTAL HEALTH, MENTAL RETARDATION AND ALCOHOLISM/DRUG ABUSE PROGRAMS. IN FACT, REVENUE SHARING WAS THE PRIMARY SOURCE OF FUNDING FOR FAMILY SOCIAL SERVICES, SERVICES TO THE AGING, DAY CARE, AND OUR SHELTER PROGRAM FOR ABUSED SPOUSES. WITH THE LOSS OF GRS, WE WOULD POSSIBLY FACE SOME VERY TOUGH CHOICES--BETWEEN THE ELDERLY OR OUR CHILDREN--UNLESS WE FIND ADDITIONAL REVENUES OR SHIFT PRIORITIES IN OUR ALREADY TIGHT BUDGET.

GRAMM-RUDMAN OVERSHADOWS MUCH OF OUR COUNTY AND STATE FINANCES. WE HAVE HEARD THE ARGUMENT THAT "THERE IS NO FEDERAL REVENUE TO SHARE." YET, THE FISCAL PLANNING SERVICES, INC. HAS RECENTLY ESTIMATED THAT THE POSSIBLE FISCAL 1987 GRAMM-RUDMAN CUTS WOULD LEAVE FLORIDA WITH A DEFICIT OF NEARLY $338 MILLION. GENERAL REVENUE SHARING IS ESSENTIAL TO FILLING IN THOSE POSSIBLY HUGE GAPS.

MEDICAID

WE KNOW THAT HEALTH CARE IS COSTLY BECAUSE 34 STATES HOLD COUNTY GOVERNMENTS LEGALLY RESPONSIBLE FOR INDIGENT HEALTH CARE. CAPPING OR FREEZING THE FEDERAL CONTRIBUTION TO MEDICAID DOES NOT STOP THE CASELOADS FROM GROWING. THE $1 BILLION IN SO-CALLED SAVINGS IN THE 1987 BUDGET IS ULTIMATELY A COST SHIFT TO STATE AND LOCAL GOVERNMENTS. THE UNINSURED SICK AND INJURED CONTINUE TO BE DROPPED ON OUR DOORS. AT THE COUNTY LEVEL, WE ACCEPT THIS RESPONSIBILITY, BUT WE CANNOT DO IT ALONE. WE NEED THE COMMITMENT AT THE FEDERAL AND STATE LEVELS TO INSURE ACCESS TO MINIMUM HEALTH CARE FOR ALL.

MASS TRANSIT

THE BUDGET INCLUDES A $2.6 BILLION CUT IN MASS TRANSIT, WITH THE REMAINING $1.1 BILLION IN FEDERAL FUNDING COMING FROM THE ONE-CENT GASOLINE TAX. THIS $1.1 BILLION WILL BE MERGED WITH $2.2 BILLION FROM THE HIGHWAY PROGRAM TO FORM A BLOCK GRANT, NONE OF WHICH CAN BE USED FOR TRANSIT OPERATING ASSISTANCE, A FORM OF ASSISTANCE ESSENTIAL TO COUNTIES.

CDBG/UDAG

THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) AND THE URBAN DEVELOPMENT ACTION GRANT (UDAG) FACE SEVERE REDUCTIONS, WITH UDAG PROPOSED FOR TERMINATION AND CDBG RECEIVING A 32 PERCENT REDUCTION WITHIN THE PAST YEAR.

CDBG IS THE CORNERSTONE URBAN DEVELOPMENT TOOL USED BY LOCAL GOVERNMENTS FOR HOUSING REHABILITATION, PUBLIC FACILITIES CONSTRUCTION AND JOB CREATION.

IN ITS 12-YEAR EXISTENCE, THE PROGRAM HAS ATTRACTED SUBSTANTIAL PRIVATE REINVESTMENT TO LOCAL COMMUNITIES, MAKING IT AN EXTREMELY EFFECTIVE AND POPULAR PROGRAM TO URBAN AND RURAL COUNTIES. LIKE GENERAL REVNEUE SHARING, CDBG PROVIDES FLEXIBLE USE OF FUNDING FOR NECESSARY COMMUNITY PROJECT AND SERVICES. WE CANNOT ACCEPT ANOTHER CUT IN THIS PROGRAM.

RURAL PROGRAMS

MORE THAN 2,500 OF THE NATION'S 3,100 COUNTIES HAVE FEWER THAN 50,000 RESIDENTS. MANY OF THESE SMALL COUNTIES RELY HEAVILY ON FARMING AND FARM ANCILLARY BUSINESS AS THEIR CHIEF ECONOMIC BASE.

RURAL LOCAL GOVERNMENT REVENUES DECREASE AS BUSINESS FAIL. IN THE FACE OF A DWINDLING TAX BASE, RURAL COMMUNITIES CANNOT SUSTAIN THE BASIC SERVICES OF WATER, WASTEWATER AND SOLID WASTE DISPOSAL. AS A RESULT, FEW OPTIONS EXIST TO EXPAND THE LOCAL ECONOMY TO NON-FARM INDUSTRIES. THE PROPOSED IMMEDIATE TERMINATION OR PHASE-OUT OF PROGRAMS SUCH AS THE ECONOMIC DEVELOPMENT ADMINISTRATION, APPALACHIAN REGIONAL COMMISSION, RURAL ELECTRIFICATION ADMINISTRATION AND RURAL HOUSING PROGRAMS WOULD EXACERBATE THE ECONOMIC PROBLEMS OF THESE AREAS.

JUSTICE PROGRAMS

DURING THE MID 1970'S WHEN THE LAW ENFORCEMENT ASSISTANCE ADMINISTRATION (LEAA) EXISTED, OVER 40 PERCENT OF THE JUSTICE DEPARTMENT'S BUDGET WENT DIRECTLY TO STATE AND LOCAL GOVERNMENTS FOR JUSTICE PROGRAMS. TODAY WITH LEAA LONG GONE, THE JUSTICE DEPARTMENT'S BUDGET HAS CONTINUED TO RISE, ALTHOUGH NOW COUNTIES, STATES, AND OTHER LOCAL GOVERNMENTAL UNITS RECEIVE LESS THAN 5 PERCENT OF THE DEPARTMENT'S OVERALL BUDGET. LAST MONTH OMB APPROVED A RESCISSION REQUEST WHICH THREATENS ALL REMAINING STATE AND LOCAL INITIATIVES, INCLUDING THE JUVENILE JUSTICE, JUSTICE ASSISTANCE AND VICTIM ASSISTANCE ACT PROGRAMS. THIS ACTION AGAIN RAISES QUESTIONS ABOUT THE NATURE OF THE FEDERAL, STATE AND LOCAL PARTNERSHIP.

ENVIRONMENT AND LAND ISSUES

THE WASTEWATER TREATMENT CONSTRUCTION GRANT PROGRAM IS SCHEDULED FOR ELIMINATION BY 1990. THE PROGRAM IS A VALUABLE SOURCE OF FUNDING TO HELP CLEAN OUR NATION'S WATER SYSTEMS. COUNTIES ARE CONTINUING TO BUILD WASTEWATER TREATMENT PLANTS, RESOURCE RECOVERY OPERATIONS, AND BRING SANITARY LANDFILLS UP TO HAZARDOUS WASTE SAFETY STANDARDS. BUT WHILE THE NATIONAL GOALS, STANDARDS, AND REQUIREMENTS REMAIN, THE FEDERAL FUNDING COMMITMENT TO PURSUE THESE GOALS IS BEING WITHDRAWN.

OF CONCERN PRIMARILY TO WESTERN COUNTIES IS THE PROPOSAL TO CHANGE THE WAY IN WHICH THEY RECEIVE MONEY FROM FOREST RECEIPTS. UNDER THE PROPOSAL, RATHER THAN RECEIVING A PERCENTAGE OF THE GROSS RECEIPTS, STATES AND COUNTIES WOULD RECEIVE THE MONEY ONLY AFTER THE FEDERAL GOVERNMENT SKIMS OFF THE TOP. IF LEGISLATION IS APPROVED, STATE AND LOCAL PAYMENTS WILL BE CUT $225 MILLION, FROM ESTIMATED 1987 RECEIPTS OF $310 MILLION DOWN TO $85 MILLION.

EMPLOYMENT AND TRAINING

IN THE EMPLOYMENT AND TRAINING SERVICES AREA, THE ADMINISTRATION IS REQUESTING THAT $462 MILLION BE RESCINDED FROM THE 1986

APPROPRIATION AND THAT $824 MILLION BE CUT FROM THE 1987 BUDGET. THESE CUTS ARE RECOMMENDED IN ADDITION TO THE $285 MILLION CUT SCHEDULED TO TAKE EFFECT ON MARCH 1 AS A RESULT OF THE GRAMM-RUDMAN BALANCED BUDGET ACT.

MANY PROGRAMS IN THIS AREA HAVE SUFFERED DRASTIC CUTS SINCE 1981. THE JOB TRAINING PARTNERSHIP ACT (JTPA) AND THE WORK INCENTIVE (WIN) PROGRAMS JUST LAST YEAR WERE CUT BY $288 MILLION (8%) AND $47 MILLION (18%) RESPECTIVELY. DESPITE THE $159 MILLION (4.3%) CUT IMPOSED BY GRAMM-RUDMAN, THE ADMINISTRATION IS REQUESTING THAT AN ADDITIONAL $416 MILLION (12%) BE RESCINDED FROM JTPA AND $46 MILLION (21%) FROM WIN IN 1986. MOREOVER, IT HAS REQUESTED A $577 MILLION REDUCTION IN JTPA FOR 1987 AND THE TOTAL ELIMINATION OF WIN.

THESE PROGRAMS PROVIDE VITAL SERVICES TO THE ECONOMICALLY DISADVANTAGED. WITHOUT THESE SERVICES, IT WILL BE DIFFICULT FOR THESE INDIVIDUALS TO GET THE TRAINING THEY NEED TO FIND EMPLOYMENT. CUTS IN JTPA AND WIN WILL MORE THAN LIKELY BE OFFSET BY INCREASES IN PARTICIPATION IN OTHER FEDERAL SUPPORT PROGRAMS SUCH AS FOOD STAMPS, AFDC AND UNEMPLOYMENT INSURANCE.

MR. CHAIRMAN, WE APPRECIATE THE GRAVITY OF THE SITUATION AND THE SERIOUSNESS OF THE DECISIONS YOU WILL BE MAKING. WE DO ASK THAT YOU LET THE PRINCIPLES OF FAIRNESS AND EQUITY GUIDE YOU. AND WE ASK THAT YOU TAKE ACTIONS WHICH WILL ENHANCE NOT DETERIORATE THE EFFECTIVENESS OF LOCAL GOVERNMENT. WE ASK THAT YOU NOT SHIFT ANY MORE DOLLARS FROM DOMESTIC TO DEFENSE SPENDING. THANK YOU AGAIN FOR THE OPPORTUNITY TO DISCUSS OUR POSITIONS WITH YOU. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

Mr. MACKAY [presiding]. We will proceed with Mayor Kline's testimony and then we will have questions. Mayor Kline.

STATEMENT OF HON. WILLIAM KLINE, MAYOR OF SARASOTA, FL

Mr. KLINE. Thank you, Representative Mack, Representative MacKay. It is nice to have you back home with us. Chairman Gray, let me welcome you on behalf of the Florida mayors back to Florida. I would also like to share with you that I, too, am a native Philadelphian.

The CHAIRMAN. Here, here.

Mr. KLINE. Perhaps at some time in the past, you and Representative Mack and I attempted to shag foul balls at his grandfather's playground. Senator Pepper, it is indeed a privilege to share the same meeting with you at this point.

My name is Bill Kline, I am mayor of the city of Sarasota. I am southeast regional director for Citizens for America.

I come here today to share with you my views on our country's economic future and the need for deficit reduction and balanced budgets. For too many years now, Congress has begat programs, which begat budgets, which begat bureaucracies, which begate increasing costs, which begat mounting deficits because the cash revenues to support all this begatting did not exist. And so, it is time to reverse this trend and bring a fiscally responsible America back to Washington.

I speak to you as a Republican, as a mayor, as a veteran, as a parent, and most importantly, as a citizen.

It has been too easy for us. We all like to have someone else do it for us but not to us. As the cartoon alligator philosopher Pogo once said, "We have met the enemy and it is us." We must all share responsibility for the current situation. Congress has too often been quick to provide funding or legislation for a much too broad range of sacred cows. We, as citizens and as local governments, have been quick to ask and quick to take. After all, it wasn't money; it came from Washington. How easy it is to denounce deficits and demand action, as long as it affects someone else or some other city. The cry, "Take theirs, not mine," has a very hollow ring to it. It has been easier to complain about what we will lose than to reorder our priorities. We have all heard too often the good news/bad news joke, "I am from Washington, and I'm here to help you." You all have the opportunity and the power to put a new meaning, a new reality to those words by focusing on fiscal responsibility.

The Federal budget is like a child's allowance gone wild, like giving each of our sons and daughters at birth a Gold American Express card and teaching them to use it at every opportunity for every whim.

I cannot run my life on a deficit. I cannot run my home on a deficit. The city of Sarasota cannot run on a deficit. Can you imagine local officials being elected by promising to spend at least 20 percent more each year than revenues? Neither can the State of Florida budget at a deficit. Why then should Congress be allowed to continue to indulge in the fantasy of spending money that does not exist?

The spending reductions proposed in the President's budget are not wild, irresponsible dismantling of essential Government services. They are but a way to begin to get rid of some of the fat in Government. The American citizen wants to see Government be lean and mean and trimmed to fighting weight, not fat and lazy from feasting off too many hand fed fattened sacred cows.

Of course, the impacts of tightening our belts will not be all pleasant, but then those of us on the firing line of local government have faced that for years. We have to order priorities to develop budgets that meet local needs and State and Federal mandates. Priorities are a way of life at the local level, on a daily basis and should be so in Washington. Many cities will be severely affected, and options in many cases are limited and painful. However, unless we bite the bullet now, we will simply continue to bankrupt our future with each succeeding year's budget unable to pay for the past.

In Sarasota, we have been fiscally responsible. Revenue sharing funds since 1972 have provided us with about $10 million for local needs. Wisely, our city commission has only used these funds for one-time capital needs in police and fire, recreation, and social services. Those needs will have to continue to be met by other sources, be it ad valorem, user fees or public-private initiatives.

Revenue sharing needs to be carefully examined and possibly continued in a modified and reduced form. However, it is only an academic exercise unless we ensure with other budget reductions, that there is a revenue to share. In community block grants, the city has received about $9 million. Most of these funds have been used for innovative and successful housing rehabilitation and replacement programs. These funds, too, will have to be replaced at the local level.

Today, Federal funds comprise roughly 5 percent of my city's general fund budget. A decade ago, Federal funds represented approximately 20 percent of city spending. We have made the transition and made it well.

Government must be returned to the appropriate levels. For years, we, as cities, have yelled that the State and Federal Governments are telling us what to do and that we want local authority. Now is the time to get government back to the people. Give local government the authority to act. Responsibility without authority or accountability will not work. Prioritize Federal spending so that Federal funding is provided for federally mandated programs. We need to eliminate large organizational structures to administer programs. The desired goals is to get the funds to the local level. The trickle-up effects of Washington bureaucracy ultimately result in increased costs and decreased available funds in all projects. Government administered at the local level can probably do what Washington does at a net cost of 10 cents on the dollar.

We need to ask not only the question, "How much does it cost?" but also, "What have we bought?" We need to look at those programs we have funded over the past decade and see how effective they have or haven't been for the majority of Americans. Chairman Gray, you serve as a member of the Transportation Subcommittee of the Approriations Committee. You yearly appropriate funds from the 1-cent gas tax trust fund. Each year, you mandate and locally promise cities such as Miami, Jacksonville, Seattle, and Los Angeles funds for mass transit systems. Yet, you know on that committee that the available income from that trust for these projects can meet less than 20 percent of those needs, $3 billion of funded projects each year of a fund that generates about $400 million. I think that is indicative of the type of spending at the Federal level that we must contain. How can we continue to let all of these cities believe that funds for their needs will be available?

What is the legacy we leave for our children? I do not want my two sons to spend the rest of their lives paying for what we have not done right over the past decades.

I do not believe we are yet at a point of deciding between block granting funds or eliminating certain programs. I do believe we are at a point where Americans want to demand the same fiscal responsibility from Congress that orders our personal and business and local government lives.

What are the steps in accomplishing all this? First, put authority on the local level. Let cities make choices that meet local needs. The State and Federal Governments must provide local government with the flexibility to meet the changing needs of growth in our communities. Second, pass a budget which reflects deficit reductions and trims fat from the bureaucracy. Put Federal spending for the future on a path of living within our means. Third, provide incentives and initiatives to local governments to continue to develop new public-private partnerships, privatization, entrepreneurships. Get Government out of businesses that Government does not belong in. We all know many examples of things that private enterprise can do better than the public sector. Fourth, bite the bullet as our representatives. Stop funding programs that do not meet the test of national priorities. Gramm-Rudman does not have to be the Lizzie Borden of economic responsibility if Congress gets rid of sacred cows and stops creating sacrificial lambs.

I thank you for this unique opportunity to appear before you today. The issues we seek to resolve are not really partisan ones.

I am proud to be a part of Citizens for America, the national, nonpartisan, nonprofit citizens grassroots lobby to support the President's policies for real economic and budget reform. Our symbol, as represented by the pin I am wearing will become the symbol throughout our country for a new self-reliant America. Chairman Gray, I am pleased to present you with one and ask you to join with me and our thousands of members in wearing it to represent our nonpartisan efforts for a better America, for we are all truly citizens for America. Thank you.

The CHAIRMAN. Thank you very much and I also want to thank Commissioner Ruvin. Please forgive me for stepping out and turning the gavel over to Congressman MacKay, but I needed to step out for a moment.

Let me begin the questions. Commissioner, I would like to ask you one question. I am sure you are for deficit reduction, just as Mayor Kline is. Do you agree with the choices as reflected in terms of impacts on local government such as Dade County, the choices that were made in the President's budget?

Mr. RUVIN. I am not familiar that much with the choices. I see an across-the-board kind of axing away——

The Chairman. Well, elimination of—let me just give you a few.

Mr. Ruvin. General revenue—the elimination of general revenue sharing, absolutely not. I think we are looking there at probably the most cost-effective program from Federal assistance for State level governments and now local governments, that has ever existed because it eliminates down to a very small percentage the administrative costs that once were part of a huge Federal bureaucracy that divided out funds for various types of projects based upon grant application.

The Chairman. Urban mass transit.

Mr. Ruvin. Absolutely not. I think there we are looking at an essential program that without which we are going to see economic recovery that the President is calling for.

The Chairman. The elimination of the urban development action grants.

Mr. Ruvin. No, I do not. I think what is needed in a lot of these programs is a reevaluation of the program. I could see a new form of Federal assistance emerging that would be more need related and that perhaps would have a system that would involve Congress more in the implementation. One of the things about revenue sharing, that I think is making it very difficult right now to work on reauthorization, is that most Members of Congress really do not feel a personal involvement with it and—as much as they once did when they could announce the various types of programs in dollars that were given to local governments.

The Chairman. Let me just ask you another question.

Mr. Ruvin. Sure.

The Chairman. Would you support, in light of the deficit reductions that we must make, a prioritizing and not the elimination of a program? In Mayor Kline's testimony, he talked about revenue sharing: "Revenue sharing needs to be carefully examined and possibly continued in a modified and reduced form."

Mr. Ruvin. NACo, in fact, has made such a presentation, as has the League of Cities and the Conference of Mayors.

The Chairman. But would you support some kind of a modification?

Mr. Ruvin. Yes, I would rather—certainly rather than a zeroing out, particularly in the last quarter of this budget when local governments across the country, perhaps even the city of Sarasota, have already budgeted what they were expecting to be getting from the Federal Government.

The Chairman. You are willing for deficit reductions in Dade County, urban areas—but you are saying instead of eliminating, you would be willing to take a significant reduction?

Mr. Ruvin. Yes, and while you are on it, I also did say that I felt the question of revenue enhancement should not be just considered out of hand. We should look at such things as what we are paying now at the gas pump, as a possible place to enhance revenue.

The Chairman. Congressman Schumer is going to have to leave us in a few moments and I would like to call on him right now, so he will be able to leave for his next flight. I think he has a question.

Mr. Ruvin. I will share a cab with you, I have got to get out of here, too.

The **Chairman**. The rest of us are going to stay right here.

Mr. **Schumer**. I appreciate it, Mr. Chairman. I have not been bitten by that Tallahassee rattler yet and I want to avoid it.

Let me ask both gentlemen questions, particularly Mayor Kline, who was head of the nonpartisan group that supports the President's program. I do not quite understand that support but——

Mr. **Kline**. We will come to New York and explain it to you.

Mr. **Schumer**. Do you support the President's budget, Mayor Kline?

Mr. **Kline**. Overall I supported the budget, yes; but I do think that there are many items in that budget that have to be analyzed as you go through this process, that there are going to be changes. There may be alternative ways to make reductions in other things and restore some of those.

Mr. **Schumer**. A 12-percent increase in defense programs and elimination of 60 kinds of programs we have already discussed such as revenue sharing and UDAG—in general are these priorities in line with your priorities?

Mr. **Kline**. Generally, I support the idea of budget reductions to get this thing back where it belongs and I support an increase in national defense, but I think the——

Mr. **Schumer**. You do not think——

Mr. **Kline** [continuing]. The figures are somewhat skewed. As I recall from what I saw recently in the media, the national defense figure was less than what was proposed last year out of the House of Representatives.

Mr. **Schumer**. That is incorrect. I do not think by any standard that is correct, just looking at numbers, percentages. There is a debate about the percentage of increase. The President says a 4-percent increase and the Congressional Budget Office, which is truly nonpartisan, says it is a considerably higher percentage increase——

The **Chairman**. Twelve percent.

Mr. **Schumer**. Yes, a 12-percent increase. But as I read your statement, this is one of the things that concerns me. We are going to reduce this deficit only if we do cut many different types of programs on both the defense and nondefense side. Given all the waste that everyone hears about in the military budget, how can we continue to increase defense spending while forcing all the deficit reduction out of the nondefense side of the budget? Obviously, we all want a strong defense, but my question is, How can we continue to just pour more and more money down that defense budget hole, given that there is probably more waste in the defense budget than in the social services budget?

Mr. **Kline**. I do not mean to suggest that I in any way support waste because I think we have waste in every budget. Getting waste in the military budget is part of that, too, whether it is $600 coffee pots or whatever it happens to be.

Mr. **Schumer**. The President's budget does not support the increase for the military retirees. Do you support that part of the President's budget?

Mr. **Kline**. I would not—I do not know what figures you are talking about, those things. In concept, yes, I support the idea for the retirement costs, Social Security, and so forth, but I think we have to find the dollars and we have to make the choices by making some hard decisions someplace. We cannot just say we support everything and not come up with reductions to counteract that.

Mr. SCHUMER. The long and short of it is that you support all the retirement programs, as do I; you also support the increase in the defense budget and you do not support any kind of "revenue enhancement" tax increase. You can cut every supposedly frivolous social program—which maybe is not so important to your constituents—and you still will not reduce the deficit, you still will not eliminate the deficit. That is a reality that I would ask you and the Citizens for——

Mr. RUVIN. For America.

Mr. SCHUMER [continuing]. For America to consider.

Mr. KLINE. Well, I think that is part of the debate that we have to have as a country. One of the very healthy things that will come out of this process is that all Americans will become much more familiar with what our priorities have to be and where we choose to put them.

Mr. SCHUMER. Just one other question. Would you support Gramm-Rudman? Let us say it was up for a vote in the House today, would you urge your Representative to vote for it even though it meant cuts in the military retirees and Federal retirees and other kinds of programs as well as defense?

Mr. KLINE. Yes; because I do not believe that we have to see something like Gramm-Rudman implemented. I think it puts the onus on all of you to make those choices so that it does not happen according to the terms of Gramm-Rudman.

Mr. RUVIN. That is why we elect you.

Mr. SCHUMER. Thank you.

The CHAIRMAN. Let me pick up where I left off. Thank you, Commissioner Ruvin, I got a picture of what you are saying. I want to go back to Mayor Kline.

Mayor Kline, you mentioned that revenue sharing needs to be carefully examined, possibly continued on a modified reduced form. Therefore, you would not agree with the President's proposal as it calls for an elimination of that program? It is not a modification, it is an elimination of that program; is that correct?

Mr. KLINE. I think that the life of the cities and it certainly is something that affects large cities more so than small cities needs to have some kind of revenue sharing program, yes.

The CHAIRMAN. No problem. We—it is interesting to hear you say that because I heard that in Chicago from the mayor of Homewood, a small town of 20,000 people, who said exactly the same thing. That is good for us to hear because what you are saying is, Hey, I want a deficit reduction but here are my priorities. That is what we need to hear. It is one of the reasons for these field hearings, to hear people like yourself say, Boom, here is where my concerns are. I also notice that you say that basically the community development block grant could be eliminated, from your perspective.

Mr. KLINE. I have not analyzed the budget, I am sure, nearly to the extent that you have and I do not certainly pretend to be that proficient on all the things, but a block grant I think is an example of a program that perhaps needs to be looked at in conjunction with UDAG. Maybe we cannot continue both. Maybe we can continue one or the other in some form. UDAG's have done a lot of good things. On the other hand, they have also built some resort hotels and other things so I think I would rather see that money go to housing for those who cannot afford it than building luxury hotels. So, I think there are priorities and choices that can be made.

The CHAIRMAN. But I am saying in looking at your testimony at page 3 it says community block grants, these funds too have to be replaced at the local level.

Mr. KLINE. So, in Sarasota we would make that choice.

The CHAIRMAN. Right; you are saying I want revenue sharing but I do not need CDBG. That is what this paragraph says and I am just making sure——

Mr. KLINE. I think what I said was that if we have to, Sarasota will find ways to fund both of those programs at a local level, but I do philosophically believe in particular that the revenue growth sharing program should be continued in some form.

The CHAIRMAN. OK, I just wanted to get that very clear because that is what we are—at least that is one of the things I am interested in hearing before we start marking up the budget and trying to figure out how we are going to get down to 144 real dollars, not with underestimations, as is the case now.

Mr. KLINE. One of the things that we may ultimately have to arrive at, that I referred to briefly, is some kind of larger block granting. You may have to put that choice in the local government's hands as to whether they want to use that money for what is now the community block grant purposes or for buying police cars or for whatever it happens to be.

The CHAIRMAN. Well, let me tell you what the history is on block granting. Whenever the Federal Government block grants—as I pointed out there is a proposal for block granting in educational dollars, usually what we do is to consolidate and then eliminate. Therefore, your block grants—we have done that—we have done that three or four times in the last 4 years following the President's recommendation. Usually that grant ends up being substantially less. As long as you are aware of that, but I want to make sure that you understand that a block grant—do not expect to get the same amount. One last——

Mr. KLINE. We all recognize we cannot continue to do more and have less.

The CHAIRMAN. One last thing that I would like to point out in your comment on page 4. I do not think you quite understand the appropriation process with regard to the Transportation Subcommittee. Where you correctly point out that there are many cities that have projects for transportation which are, let us say, at $1.5 billion and you mentioned Los Angeles, Seattle as well as Jacksonville and Miami, two cities right here in your own State. When we provide funding for those programs, we do not give them funding for the entire program. It is not a promissory note, as your testimony implies. What we do is give a commitment on a per year basis and usually that is an agreed-upon amount.

Ten years ago local government only had to provide 20 percent and the Federal Government would provide 80 percent; we have now changed that ratio significantly. We changed it back in 1979 and 1980 and the ratio was changed in those years to require local governments to put up 30 percent. We are now saying to the local governments if you want a transportation project you must come up with at least 50 percent of the money. We are also saying to them that even 50 percent does not promise you anything. You have got to come to the starting block and then what we do is we look at Miami. If Miami says "Well, look, we will put up 55" and look over at Seattle, Seattle says, "We will put up 65 locally," that becomes a part of the criteria upon which we judge the project as to the ones that are going to get funding.

Mr. **Kline**. I would not attempt to debate that, I am sure you are more familiar with it that I am, but I did spend 2 days this week with Ralph Stanley, the head of UMTA in Miami discussing Miami's concerns and these same problems in particular. As we came from lunch today to this room there were two buses outside the capital for sale with big signs, 80 percent Federal dollars, you fund 20 percent.

The **Chairman**. Mr. Mayor, I am not talking about the buses outside. I just want to correct the impression that you put incorrectly in your testimony, Mr. Mayor. I would hope that you would be willing to understand that and go back and do the research. I am not talking about what Ralph Stanley did. Ralph Stanley comes before me, Mr. Mayor, and I will be glad to produce a letter from Ralph Stanley telling you what the criteria is for the judging.

I do not think it is quite appropriate to imply that my committee is giving money away willy-nilly to local governments. Over the last 8 years we have purposely changed from 80-20 and we are now even saying you must come up with at least 50 percent of the money. Let me give you an example. Los Angeles last year asked for $300 million for 1 year, we said "No." They got $100 million. Now they are going to make it up themselves, State and local government. I want you to understand how the process works so you will not make an incorrect assumption.

I will say to you, Mr. Mayor, and to you, Commissioner Ruvin, before I yield and I am taking much too long——

Mr. **Ruvin**. Mr. Chairman, we in Dade County very much appreciate your service.

The **Chairman**. Well, I just want you to know that——

Mr. **Ruvin**. We appreciate the Appropriations subcommittee and the transportation grants.

The **Chairman**. We are going to have a deficit reduction and we should know that it is going to affect everybody. I want to say to the mayor from Sarasota, get ready. In the words of a great American who serves on the Budget Committee from Texas, "You are going to get your hickey, so don't worry about it." [Laughter.]

But I would appreciate your telling me which side of the head to give it to you by saying to me, "Look, Mr. Chairman, revenue sharing is more important." If you look to CDBG for those reductions, that is important for us to hear and I will read more thoroughly yours, Commissioner Ruvin. I appreciate you both being here.

I yield to the gentleman from Florida.

Mr. **Mack**. How quickly do you have to get our of here?

Mr. RUVIN. My plane is at 5:20, so I still have enough time to—particularly anybody that has roots in Philadelphia—I had the great honor to have a cousin who I loved very dearly who recently passed away, Dave Zingcoff. Chairman Gray may know him as the voice of the 76'ers.

The CHAIRMAN. I was a great fan of the late Dave Zingcoff.

Mr. RUVIN. A wonderful man, a wonderful man to his family as well.

Mr. MACK. The interesting thing so far, at least what I can pick up from the—how long have we been here, an hour and a half, going on 2 hours—is that so far nobody is really willing to give up anything except—at least from what I can gather, nobody is willing to give up anything except maybe to cut defense. Unless—just to kind of put this——

Mr. RUVIN. And bear a potential source of revenue—revenue enhancement.

Mr. MACK. Tax increases.

Mr. RUVIN. Energy taxes is what needs to be looked at.

Mr. MACK. Let me just throw it back to you. I do not think that the absorbing sum between 20 and 40 cents per gallon is something that the Nation really wants to go through again. It is something that just about killed us in the 1970's, that is point 1. Point 2, I am not real sure that we can realize revenues of 20 to 30 cents per gallon with the long-term satisfaction that we do not have to be concerned about the price of oil going up over a period of time. Then we would be doubling it, the price of oil going up and an increase in taxation.

Mr. RUVIN. Not necessarily.

Mr. MACK. Pardon?

Mr. RUVIN. Not necessarily. That is not necessarily true. It could be—the tax itself could be considered as a temporary effort to bring new moneys to cut the deficit and it could be greated to the price at the pump and it could be sliding. There are a lot of things that you could consider if your minds were open to paying part of that now rather than just taking it out of the hides of the needy in this country on the premise that you do not want to visit your children with that debt.

Mr. MACK. Commissioner, I do not mean to be antagonistic and I am not going to be.

Mr. RUVIN. OK, I will not either.

Mr. MACK. What does concern me, and I am sure it does the rest of the fellows on the committee, is that typically when we try to find ways to be more effective or efficient with the dollars that the Federal Government spends is we generally get a response back, you know, do not touch revenue sharing or other grants. What comes back to us is that there is no creative approach to trying to solve the problem.

In the black community in Fort Myers there has been block grant money that has gone for streets and sidewalks and I talked to Willie Battle out there and Willie Greene and that is not where the money is needed, but yet, because of the way the programs are designed that is how it ends up going. It seems to me that we have got to at least be willing to accept that what we need to have is rather than saying do not touch my programs, is to say maybe there is a better way to go about solving the problem. But yet, again and this is—we had these hearings last year—it was the same kind of reaction.

Mr. **Ruvin**. You did not hear my opening comments?

Mr. **Mack**. No, I apologize for that.

Mr. **Ruvin**. I talked about participating in a process to improve the programs as well and in Dade County we can hold out some real success models. They have not just been an expenditure of dollars period, they have been an expenditure of dollars that have yielded. For instance, we have an entrepreneurial institute that we have established with the help of our five educational institutions in Dade County that is developing the expertise that is going to help these people succeed in business. So we are talking about creating tax payments so that there is a flow back. The dollars that are spent in community development block grants, I think, for the most part are dollars that serve the community well and that bring back in an indirect manner perhaps, but nevertheless bring out dollars to the community whether it is infrastructure to support economic development and new jobs, whether it is——

We do not do it in Dade County, but there are areas in the country that have—as the mayor said, spend money on projects that on the surface may seem frivolous but yet create jobs and in those areas maybe those jobs are the kind of jobs that are needed. The idea of good federalism is to bring some of that discretion or allow some of that discretion to operate at the local level where local elected officials know the needs and are more directly responsible in the electoral process to the people.

Mr. **Mack**. Again, would you want to go beyond the two things that we have—at least that we seem to agree on that you said is defense certainly ought to be an area where we ought to talk about some reduction and you are saying some form of——

Mr. **Ruvin**. I am saying look at—do not start the debate by saying we will not consider energy in any revenue enhancements because then you are only talking really about half the equation and, I think, you should at least consider and, I think, that you will find there may be some revolutionary approaches that you can take there that can yield some dollars and save or stretch out for a long period the kind of impact that you are going to have on the needy and the underclass in this country.

Mr. **Mack**. Again, but I happen to take the position that revenues are off the table because I am convinced that if we relieve the pressure through whatever—and maybe the putting of gasoline tax is the easiest way to raise the money, the least negative reaction throughout the country—but I do not think that is in our best interest. I think it is in our best interest to try to go through this process and pick priorities. So far we have not done that.

Mr. **Ruvin**. There will still be cuts even with that. You are not talking about raising the kind of money in an energy tax that would eliminate your having to make a lot of hard decisions and make some cuts and reevaluate some programs like revenue sharing, but just to zero them out, I think, is irresponsible particularly when you have got local governments in this country that have budgets that they are expected to get. It all falls in the contract area that the Governor is talking about. I am talking about now the deferrals.

Mr. **Mack**. The President's budget does not talk about revenue increases.

Mr. **Ruvin**. What it is, as I understand it, is zeroing out of the last quote which we are talking about the fiscal—in the next fiscal year we are talking about zero dollars for revenue sharing.

Mr. **Mack**. What I was going to say is that the budget as put forth by the President, while it does not call for raising taxes, certainly has called for user fees, those are receipts to the Federal Government, and second, selling off assets that they feel—the OMB feels are not assets that the Federal Government needs anymore. That is a form of revenue increase.

Mr. **Ruvin**. I do not know, some of those—if you are talking about some public lands that—particularly in the West, you are going to find a real philosophical discussion will flow from that proposal.

Mr. **Mack**. Could I make just one more comment?

The **Chairman**. Sure.

Mr. **Mack**. It is to Mayor Kline because, I think, you made some comments having to do with defense numbers. At least the numbers that have been released by OMB and their budget would certainly indicate that the budget resolution for defense as passed in 1986 calling for expenditures in 1987 of $315 billion. It is $3 billion above the 1987 budget authority number the President asked for. So, I think, you are correct in stating the two things.

The **Chairman**. The gentleman from Florida, Mr. MacKay.

Mr. **MacKay**. I do not have any questions, Mr. Chairman.

The **Chairman**. The gentleman from Washington, Mr. Lowry.

Mr. **Lowry**. Thank you, Mr. Chairman. I would like to thank the panel for the excellent testimony. Commissioner, how important is the Miami transit project that we hear so much about, to the vitality of the area and with the budget before us which is about a—I believe there is a 40-percent reduction in the combined urban arterial born mass transit combination block grant to the State? If that proposal passes, does Miami have the ability to go on with the project without the Federal participation?

Mr. **Ruvin**. When you say Miami do you mean the city of Miami?

Mr. **Lowry**. Well, Miami——

Mr. **Ruvin**. The city of Miami represents about 15 percent of the population of Dade County. It is basically downtown Dade County, a county of 2 million people and the county is the operator of the transit system and has designed the system. The system—do I understand you're asking how important is that system to the future of Dade County?

Mr. **Lowry**. Uh-huh.

Mr. **Ruvin**. I think critically important. I think that in the years ahead we are going to see the great wisdom of the Federal, State, and local partnership in building that system and while it may be the last system to be built of its type because of the kind of costs that are involved and it may also be the last system to be built with 80 percent Federal dollars—and the system is not yet complete, the downtown component of it which will be the main generator for ridership at least in the short term will not be open for another 8 or 9 months. I think once that is open we will see ridership increase dramatically and as time—the whole concept of our system was to create a direction to land use and to provide for a future in Dade County that could be then modeled around the country according to Secretary Coleman in the Ford administration who approved this original, that would generate growth around the terminals and that growth will be a source of new tax dollars that would not otherwise have come into the coffers of Dade County and the cities that it will pass through, that will generate, I think, more moneys, that will eventually easily handle the operating burden and probably help fund where we can leverage the tax increment of future expansions of the system.

Mr. LOWRY. Well, if there was a reduction in the Federal participation with that, say, down to 30 percent as opposed to the 80 percent, could you do it? Could Dade County——

Mr. RUVIN. Our system is built. The first phase of the system which is a self-sufficient system is built. You are asking me could we build the expansions?

[Mr. Lowry nodding head affirmatively.]

Mr. RUVIN. I think so and I may be in the minority here and what I am basing that answer on is that, I think, we can because of the growth that will be generated. We have created what we call the terminal area increment metro area is 1,000 feet around each terminal. It is an area that we have designated. We are segregating all property tax revenues above the premetro rail level, keeping that in a separate account. We feel and now we are seeking some changes in the State increment tax law and if tax reform does not do it in we are looking to be able to leverage bonds for construction for the local match. We also have to go to our public for a 1 cent sales tax which would be the local match that we have been promising the Congress and Secretary Stanley for some time. Once we can approve that, I think, we will be able to have the financial resources to move in the future with future expansions.

Mr. LOWRY. Do you have a constitutional prohibition against tax in your financing or is this statutory?

Mr. RUVIN. We have a statute that enables tax increment financing for redevelopment of blighted areas. We are looking to expand that to include more transportation related purposes as well.

Mr. LOWRY. Thank you.

Mayor Kline, you talked about sacred cows. I think we all agree that there are really two big sacred cows in the Federal budget when it comes to our dollars. One is defense which is $846 billion after the interest on the debt. Defense is $290 billion and the other is retirement programs which add up to about $348 billion. Those two together add up to $638 billion out of $846 billion. Those retirement programs are, of course, for Federal retirements, the vets, Social Security, and Medicare. Do you think we should cut those?

Mr. KLINE. I think we have to look at what we are doing within the administrations of those programs and cut those things that are waste within them.

Mr. LOWRY. Well, then——

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Mr. **Kline**. I think we can find ways to do that that is different than cutting the direct benefit back to the people. There may be other ways of delivering those services.

Mr. **Lowry**. Well, in Social Security, $212 billion, $5 billion of it is administration. The rest is the benefit delivery and as we follow on through the other retirement programs, I mean just the overwhelming like 98 percent of that is the direct benefit. Now there are only really two sacred cows, they are defense and then the retirement program. Now do you want to cut the retirement benefits to Federal employees, veterans, and Social Security?

Mr. **Kline**. Oh, I know.

Mr. **Lowry**. Well, then we need a tax increase because you see I just—we just added up $638 billion out of $846 billion. I mean that is just it. I am really glad to hear you say the sacred cow because I am interested in getting very tough on those things and have proposed taxing the Social Security benefits for high income and they do not like it.

Mr. **Kline**. For higher income?

Mr. **Lowry**. For higher income and get a lot of heat out of that. Taxing the benefits for higher income, but when we take a look and say we have got to get tough, there are two sacred cows and it is retirement programs and it is the military. What is the median income of Sarasota, Mayor?

Mr. **Kline**. I do not think I could give you an accurate figure on that.

Mr. **Lowry**. Do you know what it is compared to the State of Florida?

Mr. **Kline**. I would say it is higher than the average for the State of Florida.

Mr. **Lowry**. Higher?

Mr. **Kline**. Yeah.

Mr. **Lowry**. I want to thank both members of the panel. I think the local government officials are really on the frontline. They have the toughest jobs of all. I used to be a county commissioner and I ran for Congress to get out of it.

Mr. **Ruvin**. Andy Levell——

Mr. **Lowry**. He got out of it, he was voted out really.

Mr. **Ruvin**. He was a taxicab driver.

Mr. **Lowry**. Right.

The **Chairman**. We want to thank both Mayor Kline and Commissioner Ruvin for their views and certainly we appreciate them sharing with us their reaction not only to the President's budget, but also to the priorities that they think we ought to be looking at as we try to come up with a strong deficit reduction package. I want to thank Mayor Kline and I also want to thank Commissioner Ruvin.

The Chair now calls to the witness table David Pingree, secretary of the Florida Department of Health and Rehabilitative Services; Margaret Jacks; Budd Bell, chair, Florida Clearinghouse on Human Service; Rocky Ruggiero, president of the Florida Chapter, NARFE; and L.K. Cannon, past president, Citrus County Retired Officers Association.

I will yield to the Congressman from Florida, Mr. MacKay. I would like to announce we have made up about 10 minutes, we have still got about 40 minutes to make up. I will yield to Congressman MacKay to say a word of welcome and anything else, to this panel of experts that he is personally familiar with.

Mr. MacKay. Mr. Chairman, I know the folks who are here to testify. They are some of the most knowledgeable people in America in their field. I respect and admire them and have worked with them over the years and I want to make a challenge to each member of the panel and to everybody on this side of the table. Give us the abridged version and not the King James version and in exchange we will limit ourselves to the amount of time that we are supposed to take. Otherwise, there are some other people who are experts who need to be heard who are not going to end up having enough time to make their points that I think we need to make. Let us all of us try to stay within the 5-minute limit and let us try it on this side. I have gotten the chairman to take the pledge and I believe it will be a very useful thing. Thank you, Mr. Chairman.

The Chairman. We will go in the order of Mr. Pingree, Ms. Jacks, Ms. Bell, Mr. Ruggiero, Mr. Cannon. Would you proceed in that order and please summarize your testimony?

STATEMENT OF DAVID H. PINGREE, SECRETARY, FLORIDA DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES

Mr. Pingree. Mr. Chairman, members of the committee, certainly we all understand the challenge that we have facing us with respect to the Federal budget deficit and we, and I will speak for myself, certainly believe that there is something that needs to be done. We need to balance the budget. I am not going to go through my written testimony. I do not claim to be an economist, but I am going to make some suggestions.

First, I believe we need a surtax aimed specifically at reducing the national debt. If we are to declare war on this deficit, it requires more than retrenching through cutback management, it requires aggressive action. Such a surtax should be time limited, say either 1991 or when the deficit is eliminated, whichever comes first.

Second, I believe we need some kind of a flat tax paid by every individual whose income is above the poverty level and every profit making corporation in this Nation. This presumes some level of tax reform which is a difficult issue, but as American citizens we have a right to expect that the obligations of citizenry will be shared equally by everyone who also share in the benefits. Wealthy individuals and successful corporations have a moral obligation to contribute to the well-being of this Nation and should be required by law to do so.

Third, I invite examination of layers of government at the Federal level to see which of these levels may be eliminated. I am not picking on the Federal bureaucracy, I am not suggesting that waste is rampant. Certainly, a lot of people look at my agency, the department of health and rehabilitative services, in an attempt to uncover waste and inefficiency, but we can respond. Our cost of administration is 5 to 6 percent of our total operating budget. In the

1981-82 Federal and State cuts we eliminated one layer of our bureaucracy and eliminated 1,500 positions.

Fourth, I encourage some sorting out of governmental responsibilities under this new Federal approach to public services. Governor Graham suggested it, but I would also go on to say that today what has happened all to often is that responsibility has shifted from the Federal to State or local levels. But in accepting that shift States and localities also have gotten the shaft by having the responsiblity with neither the funding nor the regulatory discretion necessary to fulfill that responsibility.

This leads me to my fifth point which is that we are mired in unnecessary Federal regulatory requirements and organizational constraints and mandates. The block grant concept does not free up management. Instead, it has given us less money, often with even more regulatory restrictions. In some programs our administrative costs have risen as we struggle to implement a steady flow of regulatory changes in such areas as food stamps, AFDC and Medicaid. Organizational requirements continue to limit our managerial options at the State level in vocational rehabilitation, child support enforcement and licensure and certification. I do not believe program accountability or effectiveness will suffer by relinquishing some of these Federal controls.

Sixth, it is a fallacy of the President's proposals that State and local governments are prepared to take over full fiscal responsibility for the programs he has targeted. It is true that Florida should be doing more than it is to provide resources—than it is now doing to provide resources for Social Services programs, but the Federal Government should not be doing less. Federal funding should maintain the national base of service that has reduced some of the historical disparity among States, while shifting the responsibility for meeting new or additional needs to State bases.

Finally, I would urge improved Federal interagency coordination and cooperation. In my years of experience in the State government, I find that in our State human services agency we are able to do it, but if you look at the food stamp people in USDA and AFDC and Medicaid people in HHS, what I find is not very much interagency coordination and very few common requirements or compatible regulations.

Also, I would just like to say in response to Congressman Mack's interest in cuts, we do take cuts and I think that the Federal Government could look at some, too. Some of them are short term. For example, annually in order to make sure that we balance our budget and do not have deficits, we freeze out of State travel, we eliminate multidistrict and statewide meetings. It hurts when our people cannot get together to talk about client needs and services, but we do it to balance our budget when necessary.

You ought to do at the Federal level as we do at the State level—identify model, demonstration or experimental programs and projects; evaluate them; and cut those that are not doing the job. Not everything is mandated across the board. There are a lot of projects and programs out there that are in one city or another or a handful and not all of them are ever anticipated to become nationwide. In fact, they become—in Florida, as Congressman MacKay would understand—they are simply local turkeys. Eliminate nonessential and nonmandated programs. Stop mandating programs which in fact are never anticipated to be fully funded. I am speaking of this as a problem at the State level, not just at the national level. I will give an example.

Last year the Florida Legislature mandated that we serve all spina bifida children under our Developmental Services Program, but the legislature then only appropriated $100,000 to do that. Do you know how many spina bifida children can be covered with $100,000 in a year? That raises the level of expectations of the citizens of this State regarding the extent of available assistance, and, of course, we cannot deliver. I am saying that at both the State and the national level there are programs of this nature that we need to address by either funding them adequately or eliminating them.

On the other hand, with respect to some of the programs the President suggesting cutting like the WIN Program, we at the State level are making the Work Incentive Program a good program and it is working. It is getting people off of welfare and making them productive and taxpaying citizens. Look at the ET or Choice Program in Massachusetts, look at the Public Assistance Productivity Act here in Florida. We know how to make work incentive programs work and, if the White House does not know that, just come ask us and we will show you.

[Testimony resumes on p. 422.]

[The prepared statement of Mr. Pingree follows:]

PREPARED STATEMENT OF DAVID H. PINGREE

Mr. Chairman, members of the committee, honored guests. Thank you for inviting me to discuss the impact of the President's recommended budget and the reductions called for under Gramm-Rudman-Hollings. I think many of us would agree with the statement of Senator Chiles who, reflecting on the tone of optimism in the President's State of the Union address versus the reality of his budget proposals, said "I felt a lot better last night when I heard the President's themes than I did this morning when I saw the blueprint."

The blueprint unfortunately is one that would tear down the social services structure in our nation rather than build on its solid foundations. The federal budget deficit is a compelling challenge, certainly, and requires all of us to work toward its elimination. But at the same time I believe we have an obligation to find ways to develop new resources rather than placing the onus of budget balancing on the shoulders of the poor, the young and the elderly.

These latest proposals from the legislative and executive branches are only the latest in a long line of severe budget cuts for us here in Florida. My department--the Department of Health and Rehabilitative Services--works with the most vulnerable groups in our society: the old, the young, the poor, the sick, and the disabled. On any given day we serve more than one million such people.

My department's budget is $3.2 billion, of which 55 percent is from federal funds. In 1981 during the first year of the Reagan administration we experienced a $44 million cut in our federal funds. The majority of this was in block grants and entitlement programs: Aid to Families with Dependent Children, Medicaid and Food Stamps.

These reductions resulted from revisions in federal eligibility standards which reduced levels of client participation but increased administrative costs because of the complexity of the policy changes. As the program underwent what was called "streamlining" by our federal counterparts, we assumed this greater administrative burden which, in turn, increased the number of errors our workers made in their cases. The accelerated error rate led to threats of fiscal sanctions, and even further new costs were incurred by the state in mounting its effort to fight the loss of funds. Exacerbating this situation was the growth in numbers of needy Floridians as a result of massive influxes of refugees, particularly from Haiti and Cuba.

Like the nation as a whole, Florida also experienced a downturn in its economy shortly after the 1981 reductions. Having just accommodated federal cuts, we then were faced with additional expenditure reductions in state general revenues. Half of Florida's revenue comes from its sales tax, which depends heavily on tourist dollars and reacts swiftly to any national recession. All state agencies were required to reduce expenditures to keep the state budget in balance, a requirement of our constitution.

The combination of state and federal cutbacks resulted in the loss of more than $136 million for my department. Let me describe for you the approach we took in accommodating those cuts in HRS.

Historically this department has operated with a low ratio of administrative costs to operational costs--between five and six percent. Despite this low level, we have targeted the bulk of the cuts we have made during the eighties at administrative levels of the agency. We felt this was the right way to operate since any other choice would mean severe reductions in client services. More than 1,500 positions have been eliminated. While we have been able to maintain basic service delivery as a result, the administrative support that makes service delivery move smoothly over the long term is spread too thin, and, like a foundation that has been shorted too many yards of concrete, the service structure is beginning to show the stress fractures of too much pressure. We have severely hampered our ability to provide monitoring, training, technical assistance and oversight.

One of the most highly publicized examples of this resource anemia occurred last August when an infant in our care died in a foster home. Our investigations of this case revealed problems in case load levels, training, availability of foster and shelter homes, and other factors critical to the provision of quality care. While some of the problems can be remedied through procedural change within the agency and the service district, the vast majority are related directly to resources. And yet we face still further cuts because there is no counter-balancing revenue enhancement to enable us to reduce the deficit and still meet our domestic commitments.

Although the legal challenge of Gramm-Rudman-Hollings goes forward, our efforts have been directed at determining how we will accommodate both those reductions for 1986 that become effective on March 1 and those that may affect us after the start of our new fiscal year July 1, 1986.

Reductions between now and the end of June will total about $7.5 million, and their effect is intensified since those reductions all must be accommodated within a four-month period. For the state fiscal year that begins July 1, the department will have to cut $15 million just to annualize the fiscal 1985-86 cuts. If there are further reductions under Gramm-Rudman-Hollings, they will be over and above that $15 million.

To cope with the initial phase of Gramm-Rudman-Hollings we will have to freeze positions and limit travel. We also are asking all contracted providers for the first time to take an administrative cut without reducng client services. The majority of our services to people in our developmental services, mental health and aging programs are provided through contract.

Although we will try to minimize the effect of cutbacks on direct services, we cannot avoid some. For example:

0 If we take the reductions in the Older Americans Act in OAA-funded programs, we will have to eliminate more than 100,000 home-delivered and congregate meals.

0 Residential programs cannot be monitored without on-site inspections.

0 Adequate services cannot be provided unless staff are adequately trained.

All these activities require sufficient staff and travel funds.

Many of our options for adjusting to the Budget Reduction Act for this state fiscal year involve non-recurring funds. These will have to be replaced beginning July 1, or we will have to reduce client services. If Gramm-Rudman-Hollings is triggered in 1987, the results will be drastic.

In estimating the potential impact, we used a conservative figure of 15 percent for Federal Fiscal Year 1987. News reports have estimated the reduction could go as high as 25 percent. Here are a few examples of the potential impact of deep cuts in 1987 in Florida:

0 Social services block grant money that is used primarily to fund services to low income families, dependent and delinquent children, the developmentally disabled and the elderly will be reduced. Over 70 percent of the block grant funds are used in children's programs.

0 Services to abused, neglected, delinquent, and emotionally disturbed children and their families will be curtailed. Indeed, the trend that we have emphasized for a decade of serving clients in their own homes, in communities, in non-institutional settings will be reversed because of our inability to fund those community-based programs.

0 Of particular importance are day care and front-end services to those who are abused or neglected. We project the reduction of more than 2,000 subsidized day care slots that now are serving children of low-income, one-parent families. Such a loss will make it even more difficult for these parents to hold jobs and will stimulate their return to public assistance programs. Even before such cuts we have more than 6,000 public assistance clients on waiting lists for day care services.

0 Our pre-protective and protective services are designed to serve families at risk for abuse and neglect and to

protect children in their own homes, preventing them from being placed in emergency shelter or foster care. Both programs are essential to our compliance with Public Law 96-272's mandate for pre-placement prevention services. More than 18,000 dependent children were served last year in the protective services program. Proposed reductions could result in loss of 55 positions next year, increase caseloads, and reduce services to over 1,000 families and their children. Some of these children can be expected to be placed in foster care and other programs outside their homes at greater cost and with less potential for meeting the administration's goal of preserving the family unit.

0 Other service areas affected will be our contractual services that target children in crisis and prevent placement in shelter and foster care, the Intensive Crisis Counseling Program and support services that include counseling, legal services and transportation. These represent more than $400,000 in reductions and more than 8,000 fewer families and children served.

0 The Maternal and Child Health block grant funds services for children suffering from chronic handicapping conditions as well as services to promote good maternal and child health for needy families. We use these funds to contract with private community physicians to care for children with chronic handicapping conditions. Our Improved Pregnancy Outcome Program also is funded from this source. It is provided through contracts with all 67 county public health units and is one of the major factors in a dramatic drop in Florida's infant mortality rate.

In 1980 there were 14.5 deaths in Florida per 1000 live births compared to the national average of 12.6. In 1984 that rate had been reduced in Florida to 10.8 deaths per 1000 live births, just a fraction above the nation's average 10.6.

0 The federal venereal disease grant pays for staff and laboratory services needed to control and help prevent the spread of sexually transmitted diseases. Penicillin resistant gonorrhea apparently was introduced to Florida in 1976 by military personnel returning from the Philippines. This disease requires an expensive laboratory test to identify the organism and requires an expensive antibiotic treatment since it does not respond to routine penicillin treatment. From 1976 to 1980 Florida had only 17 cases of this disease. By 1985 there were more than 4,000, of which 32 percent were in Dade County. Florida has 47 percent of all the cases in the nation, and if we are to stop this disease before these same effects are felt in other states, we must continue the federally supported tracking and treatment activities that can prevent its spread.

We have projected other specifics of the effect of the Budget Reduction Act, and this material is appended. Now let me turn briefly to an analysis of the President's budget proposal as it would affect human services in Florida.

Since 1982 the Congressional Budget Office estimates human services funding has been reduced $110 billion. The purchasing power of food stamps has decreased 21 percent while those living below the poverty level have grown in number by 41 percent.

Florida is one of seven states considered to have a low-cost housing crisis. More than a million Floridians can no longer afford suitable housing without spending in excess of one-third of their income. The lack of adequate shelter results in a variety of social ills: disease, child neglect, family breakup, despair and homelessness. Fifty thousand Floridians are on waiting lists for federally subsidized housing. The President proposes to eliminate this program.

Medicaid

The proposed growth limit in Medicaid would reduce federal funding in Florida by $195 million for federal fiscal year 1987. In 1984 Florida passed the Health Care Access Act to be implemented on July 1, 1986. It represented the single greatest effort this state has made to provide adequate health care for low income people. It relies for support on a combination of state and federal resources since it takes advantage of provisions of the national Medicaid program and also places an assessment on hospital revenues in the state in order to fund services to two-parent families who meet Medicaid income standards--the so-called medically needy program.

Even if we were to eliminate the medically needy component, our loss still would be about $133 million under the President's proposal. Not only would we have to eliminate the medically needy program entirely but we would have to reduce our current program in both the hospital and nursing home programs.

Jobs

The President also proposes to eliminate the Work Incentive program--WIN--labeling it largely ineffective. This is a program specifically designed to help people on AFDC find jobs. In Florida WIN has been an essential component in meeting two critical client needs. Over a period of several years we have closed two of our large developmental services institutions. The majority of the clients have either returned home or moved to small, home-like community facilities we call "clusters." Many of these clients are severely retarded, heavily medically involved, requiring close staff attention. But we have had great difficulty finding aides to work in the clusters. Through WIN we have systematically matched employable AFDC recipients with cluster staff vacancies, assisted operators in selecting applicants, and provided carefully designed pre-employment training.

Of the 81 clients who have entered pre-service training, 71 or 88 percent completed it. Of these, 67 were placed in on-the-job training positions. The facility operators, many of whom were skeptical in the beginning, have been more than satisfied with the results of this venture. The average cost per placement was $2,348. The other programs the President proposes to handle the WIN caseload do not have provision for the vital pre-employment training that made our experience a success. In 1984-85 our AFDC caseload included 74,978 adult heads of households. Of these 31,000 were referred to WIN and 9,310 or 30 percent obtained jobs. The welfare savings for that year alone was $12.6 million.

We want to expand this successful WIN model and train AFDC clients for employment in direct care positions in nursing homes as well as developmental services residential facilities. In cooperation with the Job Service of Florida and the Job Training Partnership Act we will assist 21,000 public assistance recipients to obtain employment during this year. Reductions in WIN and JTPA funding, which may affect the availability of child care, transportation and other support services, will make it even more difficult for needy families to break out of their dependency on welfare.

Elderly

The President's proposals hit the elderly especially hard. The budget proposed a $4.7 billion "savings" in the Medicare program. This will come from such measures as increasing the amount of money older people pay for health care out of their own pockets, reduction in direct medical education funding, raises in premiums and deductibles, and institution of co-payments. This nation's elderly already spend one dollar out of every seven on health care. The proposed budget will increase the burden on senior citizens in meeting all their daily living needs. Because nearly one quarter of Florida's population is elderly, that impact will be especially hard here.

The Older Americans' Act provides in-home and congregate meals and supportive services such as in-home care, transportation, legal services and senior centers. The proposed freeze in 1987 to the 1985 level of $669 million will result in closure of meals sites due to the increase in food and preparation costs.

Reductions in federal revenue sharing and the Community Development Block Grant also would have significant impact on social services. Throughout the state significant portions of federal revenue sharing and community development funds are used to fund services like day care, transportation for the disadvantaged, emergency shelter, meals on wheels and general assistance. In Dade County alone as many as five meals sites would have to be closed as a result of these reductions.

Other areas in which we would be affected:

0 The budget proposes elimination of the Community Services Block Grant in 1987 and a six-month recission in 1986. The President implies that the Social Services Block Grant, which would be increased to the pre-Gramm-Rudman level of $2.7 billion, would take up the slack. The additional $116 million in the Social Services grant would not, however, offset the $169 million lost in community services. Florida currently receives $10.1 million in CSBG money.

0 Refugees: The budget would rescind Targeted Assistance in 1986 and eliminate the program in 1987. As a state which already has borne more than its share of refugee-related costs, this would be a terrible blow.

0 Fiscal Sanctions: The budget assumes savings achieved by implementing food stamp and AFDC fiscal sanctions previously held in abeyance. It is our position that these sanctions grew out of unreasonable complexities imposed on the states and that they are invalid.

0 Child Support Enforcement: The federal financial participation rate would be reduced to 66 percent from the Gramm--Rudman-Hollings rate of 66.5 percent. Florida would lose an estimated half million dollars.

0 Enhanced Funding for Data Processing and Survey Certification: Special matching rates for food stamp, AFDC and Medicaid would be reduced from 90/10 to 50/50. For the planned AFDC system alone, Florida could lose $2.4 million over the next two years.

0 AIDS Recission: Research grants for 1986 would be reduced. Jackson Memorial Hospital in Miami was anticipating a $4 million grant to serve a state that has the third highest number of AIDS patients in the country and where we expect the caseload to double each year. It is a positive note that funds for 1987 seem to be unaffected and perhaps increased.

Preparedness

In the past five years we have learned a great deal in my department about cutting our budget. Many of them have been painful lessons. In some instances we have found ourselves trying to continue to support essentially gutted programs with neither adequate staff nor adequate service dollars. Some programs, only partially funded at their inception, and never fully funded in ensuing years are a constant source of dissatisfaction both for those who operate them and those who purportedly are served by them.

As managers we have sought to find ways to deliver high quality services despite fiscal constraints. One of our tools has been application of private sector strategic planning principles to this large, diverse public sector agency. It has clarified for us our service priorities over the next five years and will be our guidebook in whatever cuts we are forced to take. It will help us make the tough distinction between what services are absolutely essential and what must be eliminated entirely so that we no longer are trying to operate hopelessly crippled programs.

I can tell you that viewed individually many of the President's proposals and those of Gramm-Rudman-Hollings do not look so terrible--half a million here, a million there. But taken together, the whole, as Everett Dirksen once said, begins to look like real money. More than that it represents the loss of real services to real people in real need.

I support the President's call for reforms in our welfare system. In Florida we are committed to the concepts of promoting economic self sufficiency and providing public services in the least restrictive setting, thus preserving the family unit. I agree that too many of our programs are incompatible with these goals because of restrictions that seem to reward dependency and promote institutional services. But I do not believe that our society can support the level of domestic cuts contemplated in the two fiscal packages. We must have additional revenues.

I do not claim to be an economist, but I do bring a number of years of public policy experience to the suggestions I have to make both for securing those revenues and for improving the way we do business.

First, I believe we need a surtax aimed specifically at reducing the national debt. If we are to declare war on this deficit, it requires more than retrenching through cutback management; it requires aggressive action.

Second, I believe we need some kind of flat tax paid by everyone whose income is above the poverty level. This presumes some level of tax reform, which is a difficult issue, but as American citizens we have a right to expect that the obligations of citizenry will be shared equally by everyone who also shares the benefits.

Third, I invite examination of the layers of government at the federal level to see which of those layers might be eliminated. I do not suggest that waste is rampant in the federal bureaucracy. From the outside looking in, it is all too easy to generalize about such matters. People make those generalizations about our agency, not realizing that over the years we have cut those layers. Our administrative costs average between five and six percent--a very low figure.

Fourth, I encourage some sorting out of governmental responsibilities under this new federal approach to public services. To date what has happened all too often is that responsibility has shifted from the federal to state or local levels, but in accepting that shift we also have got the shaft by having the responsibility with neither the funding nor the regulatory discretion necessary to fulfill that responsibility.

This leads me to my fifth point which is that we are mired in unnecessary federal regulatory requirements and organizational constraints and mandates. The block grant concept has not freed up management; instead, it has given us less money, often with even more regulatory restriction. In some programs our administrative costs have risen as we struggled to implement a steady flow of regulatory changes in such areas as food stamps, AFDC and Medicaid. Organizational requirements continue to limit our managerial options in vocational rehabilitation, child support enforcement, and licensure and certification. I do not believe accountability will suffer by relinquishing some of these federal controls.

Sixth, it is a fallacy of the President's proposals that state and local governments are prepared to take over full fiscal responsibility for the programs he has targeted. It is true that Florida should be doing more than it is to provide resources for social services programs, but the federal government should not be doing less. The federal commitment to these programs should remain stable so that growth in the programs comes from state revenue commitments. This will maintain the national base of service that has reduced some of the historic disparity among states but will shift the responsibility for meeting new need to state tax bases.

Finally, I would urge improved federal interagency coordination and cooperation. Perhaps Florida is in a unique position to testify to the conflicts that arise from this gap at the federal level. As an integrated human services agency, we have spent 10 years learning the lessons of cross-program cooperation, and I can tell you that the food stamp people in USDA and the AFDC and Medicaid people in HHS could help every state by embarking on a planned program of interagency coordination.

These then are the issues I believe need equal attention as you take on the task of dealing with the President's proposed budget and whatever final demands Gramm-Rudman-Hollings imposes on all of us. I appreciate this opportunity to share my ideas with you; I offer you the detail provided in my written testimony, and I stand ready to answer any questions you may have.

DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES
FEDERAL REDUCTIONS
GRAMM - RUDMAN - HOLLINGS

GRANT	CURRENT AWARD	REDUCTION FEDERAL FISCAL YEAR 1985-86	REDUCTION STATE FISCAL YEAR 1985-86	%	REDUCTION STATE FISCAL YEAR 1986-87
Social Services Block Grant	$122,557,109	$5,269,956	$3,011,403	2.4	$2,258,553
Low Income Home Energy Assistance	31,726,109	1,364,223	1,227,801	2.6	136,422
Alcohol/Drug Abuse Mental Health	24,033,000	1,033,419	590,525	2.3	442,894 *
Older Americans Act	40,976,195	1,761,976	603,838	1.5	1,158,138
Maternal and Child Health	11,912,216	512,225	292,700	2.3	219,525
Preventive Health Block Grant	2,682,085	115,330	65,903	3.3	49,427
Education for Handicapped	2,035,159	87,512	12,501	.6	75,011
Work Incentive Program	3,656,443	157,227	89,844	2.1	67,383
TITLE X Family Planning	5,031,952	216,374	—	2.6	216,374
TITLE IVB Child Welfare Services	7,787,590	334,866	191,352	2.6	143,514
Venereal Diseases	1,234,484	53,083	22,750	2.1	30,333
Immunization	1,234,278	53,074	—	—	53,074
Vocational Rehabilitation Services SEC 110	40,832,657	1,310,502	863,144	2.1	647,358
Child Support Enforcement	24,779,000	1,185,848	417,420	1.6	768,428
	$320,478,277	$ 13,655,615	$7,389,181		$6,266,434

* Based on information received from the ADM national organization there will probably be no reduction for Florida for FFY 86.

DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES
CURRENT FUNDING LEVELS
SELECTED GRANTS

SOCIAL SERVICES BLOCK GRANT

	1985-86	REDUCTION STATE FISCAL YEAR 1985-86
ASA	$ --	$ --
ASP	84,360	2,033
ES	180,962	4,362
AAS	9,067,701	218,568
ADAMH ADAMHBG	8,824,857	212,715
CYF	82,390,098	1,985,933
CYFI	4,162,320	100,329
DS	14,416,780	347,503
CMS	4,387,911	105,766
BS	1,403,676	33,834
	$124,918,665	$3,011,043

ALCOHOL, DRUG ABUSE AND MENTAL HEALTH BLOCK GRANT

ASP	$ 193,955	$ 4,473
ADAMH	25,409,976	586,052
	$25,603,931	$ 590,525

LOW INCOME HOME ENERGY ASSISTANCE PROGRAM

ASA	$ 85,902	$ 3,474
ASP	185,100	7,486
ES	27,407,216	1,108,414
CYF SSBGTF	2,681,035	108,427
	$30,359,253	$1,227,801

MATERNAL AND CHILD HEALTH BLOCK GRANT

ASP	$ 106,653	$ 2,455
HS	8,409,765	205,290
CMS	3,691,191	84,955
	$12,207,609	$ 292,700

PREVENTIVE HEALTH BLOCK GRANT

ASP	$ 284,885	$ 9,476
HS	1,696,390	56,427
	$ 1,981,275	$ 65,903

WIN

ASP	$ 267,132	$ 5,695
ES	3,946,872	84,149
	$ 4,214,004	$ 89,844

TITLE IV-B

ASP	$ 121,292	$ 3,179
CYF	7,113 823	188,173
	$ 7,235,115	$ 191,352

TITLE X

ASP	$ 246,379	$
HS	4,424,711	
	$ 4,671,090	$

VENEREAL DISEASE

ASP	$ 24,332	$ 504
ASO	148,643	3,077
HS	925,897	19,169
	$ 1,098,872	$ 22,750

IMMUNIZATION

ASO	$ 740,049	----

OLDER AMERICAN'S TITLE III ADMINISTRATION

OS	47,014	2,968
ASP	$ 1,172,776	$ 30,641
AAS	3,230,000	52,328
	$ 4,449,790	$ 85,937

OLDER AMERICAN'S ACT TITLE III-B

AAS	$14,236,000	$ 193,346

OLDER AMERICAN'S ACT TITLE III CONGREGATE MEALS

AAS	$17,833,388	$ 269,522

OLDER AMERICAN'S ACT TITLE III HOME MEALS

AAS	$ 3,821,000	$ 55,033
	$ 40,340,178	$ 603,838

DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES
REDUCTIONS DUE TO GRAMM-RUDMAN-HOLLINGS ACT
STATE FISCAL YEAR 1985-86

BUDGET ENTITY: ASSISTANT SECRETARY FOR ADMINISTRATION

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
Low Income Home Energy Assistance Program		$85,902	$85,902	$3,474	4.04%	Lapse in the Expenses Category.

EFFECT OF REDUCTION:

The ASA budget entity will generate surplus in the expenses category that will be available to cover this reduction in federal funds.

DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES
REDUCTIONS DUE TO GRAMM-RUDMAN-HOLLINGS ACT
STATE FISCAL YEAR 1985-86

BUDGET ENTITY: ECONOMIC SERVICES

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
Work Incentive Program						
Program Office	$55,056	$156,929	$21,985	$5,695	2.70%	Title IV-A
Services	$868,438	$3,279,209	$4,147,647	$84,149	2.00%	AFDC Job Search Match
TOTAL	$893,494	$3,436,138	$4,359,632	$89,844	2.10%	

EFFECT OF REDUCTION:

The WIN program only requires a 10 percent state match, which is significantly under the actual match provided by Florida. The overmatch in the operating budget for FY 85-86 and the FY 86-87 LBR can be used to match Title IV-A (AFDC) Job Search funds available from HHS and exempt from Gramm-Rudman provisions. The earnings potential from Title IV-A employment search provision is in excess of the reductions from Gramm-Rudman.

BUDGET ENTITY: ECONOMIC SERVICES

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
Low Income Home Energy Assistance Block Grant						
Program office and Services		$30,365,511	$30,365,511	$1,115,900	3.68%	Reduction in the Grant paid to recipients.

EFFECT OF REDUCTION:

This reduction will result in a decrease in the average payment to eligible low-income households from an estimated $126 to $120, or a five percent reduction in 85-86. As the block grant goes down, the federal cap on administrative costs goes down resulting in a projected deficit of $365,043 for 85-86 which will ultimately have to be met with state funds. If the caseload remains the same in 86-87, the decrease in the average grant will be from $126 to $101, or approximately 20 percent. These reductions in payments to clients could be offset by a reduction of funding for the weatherization program which is contracted to the Department of Community Affairs for 15 percent of the block grant. The utilization of weatherization funding for LIHEAP could also eliminate the deficit in federal funding for administrative costs.

BUDGET ENTITY: ECONOMIC SERVICES

A. Since 90 percent of the block grant is spent during the October through June period, 90 percent of the FFY 86 reduction will be felt during state fiscal year 85-86.

B. The HHS Office of Energy Assistance has indicated verbally that a decision has not yet been made as to whether the Gramm-Rudman reduction would be applied as a 4.3 percent reduction to all states across the board or applied to the national appropriation and reallocations made to the states. In the latter instance, Florida's block grnt could be reduced as much as ten percent because the allocation formula provides for some states to be held harmless from reductions below certain levels. HHS staff also indicated no state will receive more than 80 percent of its block grant during the first two quarters. Florida would normally receive 87 percent during this period.

DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES
REDUCTIONS DUE TO GRAMM-RUDMAN-HOLLINGS ACT
STATE FISCAL YEAR 1985-86

BUDGET ENTITY: VOCATIONAL REHABILITATION

	CURRENT FY APPROVED BUDGET					
FEDERAL REDUCTION	STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
Section 110 Vocational Rehabilitation	$9,930,909	$39,723,636	$49,654,545	$863,144	1.70%	Do not allocate the increase to the district.

EFFECT OF REDUCTION:

A portion of an anticipated increase in Section 110 funds will be cut by Gramm-Rudman. this increase has not yet been allocated to the districts. This reduction will prevent approximately 247 additional rehabilitations from being done in 1985-86. The net effect is no decrease in current authorized services.

DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES
REDUCTIONS DUE TO GRAMM-RUDMAN-HOLLINGS ACT
STATE FISCAL YEAR 1985-86

BUDGET ENTITY: ALCOHOL, DRUG ABUSE AND MENTAL HEALTH

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
Community Mental Health Services						
Social Services Block Grant	$86,197,945	$25,401,504	$111,599,449	$176,464	0.16%	Reduce administrative costs of contracts.

EFFECT OF REDUCTION:

Community Alcohol, Drug Abuse, and Mental Health providers currently allocate approximately 16.0 percent of their budget for administrativa costs. This reduction will reduce administrative costs by approximately 1.2 percent.

Community Alcohol Services						
Social Services Block Grant	$14,772,687	$8,137,195	$22,909,882	$36,251	0.16%	Reduce administrative costs of contracts.

EFFECT OF REDUCTION:

Community Alcohol, Drug ause, and Mental Health providers currently allocate approximately 16.0 percent of their budget for administrative costs. This reduction will reduce administrative costs by approximately 1.2 percent.

DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES
REDUCTIONS DUE TO GRAMM-RUDMAN-HOLLINGS ACT
STATE FISCAL YEAR 1985-86

BUDGET ENTITY: ASO/HEALTH SERVICES

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
Maternal and Child Health Block Grant	$5,879,243	$8,409,765	$14,289,008	$207,745	1.45%	Lapsed Grant Award
EFFECT OF REDUCTION: This reduction will be absorbed in lapsed grant award and will not reduce actual service dollars. However, $207,745 represents a loss of prenatal care and child health services for 831 patients.						
Preventive Health Block Grant	$232,000	$1,895,926	$2,127,926	$65,903	3.10%	The following programs will be reduced
EFFECT OF REDUCTION: These reductions will not have a major impact on any specific program as they are spread out across CPHU's or are projects just beginning and can be reduced at this time with little impact. The Urban Rat Program was already scheduled for phase-out after this year.						$20,000 Urban Rat Program $10,000 Computer Programming CPHU Contract Management System $20,000 Preventive Services for the Elderly

DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES
REDUCTIONS DUE TO GRAMM-RUDMAN-HOLLINGS ACT
STATE FISCAL YEAR 1985-86

BUDGET ENTITY: ASO/HEALTH SERVICES

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
CDC Venereal Disease Concrol Grant	$894,240	$916,367	$1,810,607	$19,673	1.09%	To be covered by savings from freezing headquarters positions and out-of-state travel.

EFFECT OF REDUCTION:

There is no source within Health Services or Health Program Office that can absorb this cut, and a reduction in this area will seriously jeopardize the Department's ability to slow down the spread of PPNG.

DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES
REDUCTIONS DUE TO GRAMM-RUDMAN-HOLLINGS ACT
STATE FISCAL YEAR 1985-86

BUDGET ENTITY: CHILDREN'S MEDICAL SERVICES

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
General CMS Program	$57,386,671		$57,386,671	$0	0.00%	Salaries $40,464; Expenses $10,610; Children's Assessment Management Plan (University of Miami) $2,300; Kidney Disease $1,839; and Purchased Client Services $50,553. MCH reduction will be absorbed by lapse in grant award.
Donations Trust		$8,606,712	$8,606,712	$0	0.00%	
SSBG Trust		$4,504,505	$4,504,505	$105,766	2.35%	
MCHBG Trust		$3,474,402	$3,474,402	$79,966	2.30%	
Total	$57,386,671	$16,585,619	$73,972,290	$185,732	0.25%	

EFFECT OF REDUCTIONS

Enrollment of new clients will be limited to the most needy and elective procedures will be cut back. An estimated 114 handicapped children could be denied services. Potentially causing their condition(s) to deteriorate. This could result in higher medical costs at some later date due to lack of adequate medical care in FY 85-86. Three to four positions would be cut, creating more of a workload and morale problem for an already overburdended staff. Contract reductions for Children's Assessment Management Plan, and Kidney Disease will result in a lower level of services and possibly loss of providers. The cut in Expenses will reduce home, school, etc., visits and thereby deprive patients of needed services.

BUDGET ENTITY: CHILDREN'S MEDICAL SERVICES

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
Child Abuse Program						
General Revenue	$4,953,799		$4,953,799	$0	0.00%	Use prior year carry forward from this grant.
Donations Trust		$78,530	$78,530	$0	0.00%	
MCHBG Trust		$216,789	$216,789	$4,898	2.30%	
Total	$4,953,799	$295,319	$5,249,118	$4,898	0.01%	

EFFECT OF REDUCTION:

This reduction will be replaced by prior year carry forward funds from the grant award, therefore, there will be no impact.

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DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES
REDUCTIONS DUE TO GRAMM-RUDMAN-HOLLINGS ACT
STATE FISCAL YEAR 1985-86

BUDGET ENTITY: AGING AND ADULT SERVICES

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
Social Services Block Grant						
Protective Services	$2,416,981	$10,041,493	$12,158,474	$218,568	1.80%	Offset reduction with salary surplus of $130,720 per 12/31/85 Surplus/Deficit and $87,848 General Revenue Surplus from Teach demonstration project.

EFFECT OF REDUCTION:

Aging and Adult Services Budget Entity:

Reduction offset for State FY 1985-86.

BUDGET ENTITY: AGING AND ADULT SERVICES

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET			STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
	STATE	FEDERAL	TOTAL			
Older Americans Act Title III	$946,645	$41,374,665	$42,321,310	$603,838	1.43%	Assign 4.3% reduction to all program areas receiving OAA Title III funding.

EFFECT OF REDUCTION:

Office of the Secretary:

State FY 1985-86 impact of $2,968 in the State Ombudsman Office can be absorbed by reducing travel and other office expenses.

Assistant Secretary for Program Planning:

State FY 1985-86 impact of $30,641 can be absorbed by maintaining two vacancies for the balance of the year and implementing other efficiencies.

Aging and Adult Services Budget Entity:

Ombudsman Support Program:

The State FY 1986 impact of $6,022 on the Ombudsman Support Program will be major as it represents 38% of the funding provided for for variable costs for a full 12 month period. One contract support position would have to be held vacant for 3 months to generate a $6,000 lapse in funds.

BUDGET ENTITY: AGING AND ADULT SERVICES

Area Agency Administration:

The state FY 1985-86 impact of a $46,306 reduction in Area Agency administrtion funds should be minimal, ranging from $6,715 to $20,473 per area agency.

Title III B Supportive Services:

The State FY 1985-86 impact of a $193,346 reduction in Supportive Services funds will require reductions in agency administrative costs and the availability of selected less essential services and reductions in frequency of services currently eing provided to older persons.

Title III C-1 Congregate Meals:

The State FY 1985-86 impact of a $269,522 reduction in Congregate Meals funding will be the elimination of 87,507 meals at congregate sites statewide. (Approximately 6.1 million meals are served annually through this program).

Title III C-2 Home Delivered Meals:

The State FY 1985-86 impact of a $55,033 reduction in Home Delivered Meals funding will be the elimination of 23,026 Home Delivered Meals statewide. (Approximately 3.6 million meals are served annually.)

DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES
REDUCTIONS DUE TO GRAMM-RUDMAN-HOLLINGS ACT
STATE FISCAL YEAR 1985-86

BUDGET ENTITY: ASSISTANT SECRETARY FOR OPERATIONS

	CURRENT FY APPROVED BUDGET				% REDUCTION OF TOTAL	
FEDERAL REDUCTION	STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	APPROVED BUDGET	RECOMMENDED REDUCTION
Laboratory Services: Venereal Disease Control Program		$299,770	$299,770	$3,077	1.30%	Cover with savings from freezing headquarters positions and out-of-state travel.

EFFECT OF REDUCTION:

The number of laboratory tests in the gonorrhea control surveillance program would be reduced by 12,826. The Office of Laboratory Services projects running our of funds for platelets during April and this will further decrease their ability to perform the necessary laboratory tests.

BUDGET ENTITY: ASSISTANT SECRETARY FOR OPERATIONS

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
Child Support Enforcement Title IV-D	$1,123,333	$2,755,676	$3,879,009	$44,849	1.20%	Identify surpluses to cover reductions.

EFFECT OF REDUCTION:

The number of staff in the Office of Child Support Enforcement would have to be reduced by 3. This would be a 3.6% reduction in the total number of staff.

DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES
REDUCTIONS DUE TO GRAMM-RUDMAN-HOLLINGS ACT
STATE FISCAL YEAR 1985-86

BUDGET ENTITY: DISTRICT ADMINISTRATION

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
Child Support Enforcement Title IV-D	$4,950,161	$22,023,237	$26,973,398	$372,571	1.40%	Identify surpluses to cover reductions.

EFFECT OF REDUCTION:

If not covered, the total number of staff in the District Child Child Support Enforcement offices will have to be reduced by 28 statewide, which is a 4.6 percent reduction in staff. This reduction would decrease the level of child support enforcement services, including both public assistance cases from 27 percent to 25.5 percent. In addition, it would reduce the state portion of the AFDC offset by $130,770, the state's ability to earn Title IV-D incentive funds by $35,200 and the county share of incentives by $23,360; for an additional reduction $189,330.

DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES
REDUCTIONS DUE TO GRAMM-RUDMAN-HOLLINGS ACT
STATE FISCAL YEAR 1985-86

BUDGET ENTITY: DEVELOPMENTAL SERVICES

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
Social Services Block Grant						
Community Residential Treatment	$26,990,610	$11,924,333	$38,914,943			
Independent Family Living	$13,436,972	$9,746,335	$23,183,307			
Total	$40,427,582	$21,670,668	$62,098,250	$347,503	0.56%	Reduce contracts with providers by .8% - $347,503.

EFFECT OF REDUCTION:

The reduction in contracts will be applied to the administrative portion of the contracts. Developmental Services does not fund its contracted vendors at 100% of cost. Vendors must "make up" the difference in cost through donations and fund raisings. The proposed administrative reductions will reduce vendors' ability to generate this needed alternative funding source. In addition, vendor rates are increased annually based on the price level increase provided in the Appropriations Act. These increases have not kept pace with the increased cost of operating our community programs and as a result, vendors have already had to implement adminsitrative and programmatic efficiencies during the past three years. It will therefore be difficult for vendors to reduce administrative costs which will not impact on client services.

DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES
REDUCTIONS DUE TO GRAMM-RUDMAN-HOLLINGS ACT
STATE FISCAL YEAR 1985-86

BUDGET ENTITY: CHILDREN, YOUTH AND FAMILIES

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
Social Services Block Grant Trust Fund Expenses	$441,865	$177,005	$618,870	$2,033	0.33%	To be covered by freeze on positions and out-of-state travel.
Title IV-B Grants and Donations Trust Fund Other Personal Srvcs	$47,980	$108,958	$156,938	$3,179	2.03%	
Total	$489,845	$285,963	$775,808	$5,212		

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BUDGET ENTITY: CHILDREN, YOUTH AND FAMILIES

FEDERAL REDUCTION	CURRENT FY [illegible]PPROVED BUDGET STATE	[illegible]DERAL	TOTA[illegible]	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
Social Services Block Grant Trust Fund						
Child Day Care	$10,561,059	$33,402,950	$43,964,009	$1,221,894	2.78%	The department will try to identify non-recurring funds or surpluses to offset 03/01 - 6/30 cuts anticipating Legislative action for 7/1/86.
Contracted Services (JASP)	$11,069,318	$268,978	$11,338,296	$207,678	1.83%	
Salaries (Non-Residential)	$1,923,983	$8,607,641	$10,531,624	$504,480	4.79%	
Expenses (Non-Residential)	$1,798,219	$558,751	$2,356,970	$51,881	2.20%	
Total	$25,352,579	$42,838,320	$68,190,899	$1,985,933		

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BUDGET ENTITY: CHILDREN, YOUTH AND FAMILIES

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET			STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
	STATE	FEDERAL	TOTAL			
Services Trust Fund Title IV-B						
Foster Care	$9,424,145	$5,397,101	$14,821,246	$188,173	1.27%	The department will try to identify non-recurring funds

BUDGET ENTITY: CHILDREN, YOUTH AND FAMILIES

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
Social Services Block Grant Trust Fund-LIHEAP						
Child Day Care	$10,561,059	$33,402,950	$43,964,009	$108,427	0.25%	To be handled through increase in transfer authority from LIHEAP.

BUDGET ENTITY: CHILDREN, YOUTH AND FAMILIES

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
Social Services Block Grant Trust Fund						
Salaries (Dozier)	$2,564,218	$1,767,334	$4,331,552	$42,794	0.99%	Identify non-recurring funds or surpluses to cover 3/1 - 6/30/86 cuts.
Contracted Training School Services (Eckard)	$4,085,729	$2,362,377	$6,448,106	$57,535	0.89%	
Total	$6,649,947	$4,129,711	$10,779,658	$100,329		

BUDGET ENTITY: CHILDREN, YOUTH AND FAMILIES INSTITUTIONS

FEDERAL REDUCTION	CURRENT FY APPROVED BUDGET STATE	FEDERAL	TOTAL	STATE FY 1985-86 REDUCTION	% REDUCTION OF TOTAL APPROVED BUDGET	RECOMMENDED REDUCTION
Social Services Block Grant Trust Fund						
Salaries (Dozier)	$2,564,218	$1,767,334	$4,331,552	$42,794	0.99%	Identify non-recurring funds or surpluses to cover 3/1 - 6/30/86 cuts.
Contracted Training School Services (Eckerd)	$4,085,729	$2,362,377	$6,448,106	$57,535	0.89%	
Total	$6,649,947	$4,129,711	$10,779,658	$100,329		

The **Chairman**. Thank you. Ms. Jacks, we invite you to summarize your testimony. All of it will be put into the record.

Ms. **Jacks**. I will try, but may I take a minute to say I am not from Pennsylvania. I am a four generation native Floridian.

The **Chairman**. Amen, we have found one. Congressman Schumer needs to be here to find an original rattler. Go right ahead, Ms. Jacks.

STATEMENT OF MARGARET H. JACKS, CHAIR, FLORIDA OMBUDSMAN PANELS OF SENIOR CITIZENS

Ms. **Jacks**. I will try to be as quick as I can. I do want to emphasize a number of things because I think we all have to realize that if we are going to take cuts as far as programs for aging are concerned, it is going to be painful. It is going to be painful for the State, it is going to be painful for the local communities and it is certainly going to be painful for the recipients of assistance that need this help.

Right now Florida is meeting through the Community Care for the Elderly, which the Governor mentioned, and which is an excellent program that is a way of trying to keep people in their own homes as long as they can remain there out of long-term institutions. Unfortunately, we are only meeting about 14 percent of the needs, which means that there are many people out there in the community who need such services. I would like to make a statement on this issue in terms of not appearing to proclaim that all older people must have services.

In Florida, from 75 to 80 percent of the older people are independent and can live very happily on their own resources, both fiscal and personal. Unfortunately, 20 to 25 percent do need varying degrees of help. I would put in a note of interest. As far as the independent older people are concerned, the income of retirees and their skills and knowledge and use of their knowledge is a real asset to Florida. Their income from public retirement benefits alone, such as Social Security, railroad retirement, veterans benefits et cetera, bring in $22 billion a year to the State of Florida's economy. This certainly establishes that they are an asset to the State. I think this certainly puts us in a position of saying that we must find the money some way to meet the needs of those elderly who cannot meet their own needs. That is what Florida is trying to do. The services needed range from a variety of social services to medical services and to preventive services to helping in keeping well older people well.

The Committee on Aging, which the Governor appointed some months ago and is just making its second report. In this report the committee urging heavily that the State put as much funding as is possible into preventive services to those people that can be helped to maintain their independence as long as possible. That is the group that currently are already pretty well off. But their condition can change very quickly, unless they do have some preventive services at times, when such is needed and can deteriorate rapidly so that they are no longer able to be independent. When this happens many of them, as a result, require more costly service and higher expenses to the State in the long run.

I do want to shift around a little bit from the paper that I have submitted to you because I think we also have to look at the fact that here in Florida the local communities have—and I commend both of the gentlemen here, particularly Dade County—have made excellent use of revenue sharing and the community development block grants, in trying to provide additional services for the elderly. So when we are talking about what is going to happen under the Gramm-Rudman bill, that is not the only place where cuts will come from, at least directly. Cuts will also come through cuts in those two programs. I think we need to remember that when we are talking about what can and what cannot be done that cuts in revenue sharing and in community block grants will directly affect community funding of social service programs. I want to give you one or two figures on this. For example, Orlando, FL, contributes $66,000 grants to the Council on Aging, and $51,000 to Meals on Wheels. Orange County—and, Orlando is in that county—uses $62,500 for Meals on Wheels, $12,000 for the Council on Aging and $20,000 for the Senior Center. These funds come out of revenue sharing and/or community block grant funds. This is illustrative of what can be lost in meeting the total care needs of the aging at the local level.

I also want to point out to you another illustration of where cuts will hurt Florida very badly. Florida has moved ahead tremendously in the last 5 to 10 years on some innovative programs to try in many ways to improve the lot of the older person. One of the things that we are moving to right now is attempting to strengthen our Adults Protective Services Program through improvements in the statute itself and through an addition of some workers for this program. This is badly needed—for instance, one county last year in Florida had a 400 percent increase in abused elderly. This is an area where something must be done now. Unfortunately, the cuts that are coming up for 1986 will probably make it impossible for us to move ahead on that program. I think it is not just what is happening now, but what Florida is trying to do to improve services for older residents.

There is a small effective program in Florida known as the State Long Term Care Ombudsman Council. This is a group of volunteers who are organized under a council established by the statutes and used to provide protective services to people in long-term care facilities. They pick up on any complaint from the resident of such a facility or from one of their relatives and try to correct that situation or see that something is done to protect the person in that setting. With proposed cuts, there will be a cut in this program. It is a small cut, but considering the size of the program, it will drastically reduce the functioning of that council.

I want to speak a bit about Medicare. As you all know, there is a recommendation for an increase in the cost of premiums for part B participation and to raise the part B deductible from $75 to $100 in 1987. I am going to say something which may probably result in my being hung by my peers. I do not think that Social Security is a holy cow or a sacred cow. I think we have to meet our commitments to the recipients of the beneficiary grants. I do not question that those should not be cut. I do think, however, that when you look into current Medicare expenditures, I am not sure that there could not be a sliding scale of payment and deductibles beginning at a certain level of income, so that the person with excessive resources, who really has adequate income in addition to that Social Security grant, should be able to meet some of those costs of medical care to a little larger extent than they are doing now.

As I say, I know that many of the activists in the aging field do not agree with this. They do not want Medicare to be touched. I think they are really afraid that if any part of Social Security is touched, the program will be destroyed. I think that is their concern. I would hope that your committee could look at this from the perspective of facing the fact that many recipients of Medicare under Social Security do have high incomes, but while I probably will be very criticized for this, I have to say to you that it is my conviction that a lot of older people who have other income would see this as an acceptable change if they could be assured that the savings from that change would be put into a reduction in the national debt. I do think the two things would have to be tied together or else you would have an uprising.

Medicaid programs, as you all know, provide medical care for low-income people. Florida, incidentally, Mr. Chairman, has historically failed to take full advantage of all provisions of that program. For the past 5 or 6 years, however, we have expanded both programwise and costwise and this is a bad time to start thinking of cutting back on Medicare and Medicaid because the older people are really suffering from the DRG Program that has been instituted in all the hospital reimbursement programs.

I think that if the cuts in Medicaid go too far, we are going to slide back in the quality of care in long-term care programs in Florida. We are now paying adequately for that care. Back 10 years ago, or even 8 years ago, we did not make adequate payments for care. We are now, but if the cuts are such that the payments for Medicare have to be reduced, you are going to find a two-tier system of care and care of Medicaid patients in the nursing homes is going to go right back to the time when nursing homes were warehouses, where people were just placed there to live until they died without proper care. This is what will happen. I warn you that this will happen if there is a reduction in the ability to pay adequately for nursing home patients in nursing home facilities. Unfortunately, a Medicaid patient is already being discriminated against under the present program, but this will be very serious if we should have to reduce our payments.

I want also, if I may, to mention the fact that the President's budget for 1987 will restore the Older Americans Act funds cut in the 1986 budget cuts because of the 4.2 percent cut as a result of the Gramm-Rudman bill. However, even if the President's budget for 1987 becomes a reality, there is no provision in that for increased cost of living. In other words, you can really go back to the 1985 funding level, but there is nothing in that budget which will not make it a true cut as far as recipients are concerned, because it will not provide for any cost of living increases between now and then.

I want to mention briefly housing and transportation. We recently had a round of hearings here in Florida at which the senior citizens spoke very loudly and again, as at previous hearings, housing and transportation needs were identified as the biggest needs that they saw in their immediate future. I think it is very bad that the housing cuts anticipated in the Gramm-Rudman bill and the other cuts that have already been considered in the Federal housing programs will possibly come into effect. Programs to meet housing and transportation needs for the elderly in Florida are at a low ebb. I cannot give you statistics on it because we do not have them, although they are working on them now, but the housing for many of the lower income older people is totally inadequate. I would hope that something could be done to stop the present movement toward a reduction in the Federal participation in housing for the elderly.

For example, the Department of Housing and Urban Affairs plan at this point to eliminate urban development action grants which provide for retirement development in distressed areas where many older people live. The plan would also drop three housing programs which help the builder rehabilitate apartments for the elderly and other disadvantaged persons in core cities. This is a tremendous need and we cannot have it cut without a serious loss to the provisions of housing for the elderly.

Transportation is the second greatest need and I know that there is a great deal of movement at the Federal level to cut out the help currently available to assist in the provision of elderly transportation, but some way transportation for the elderly must be provided. Special transportation, door to door—portal to portal—if this is necessary or other special types of buses that can take elderly and disabled persons to where they need to go is a basic necessity. If they do not have the service, they are isolated, they deteriorate and the cost of providing adequate care for them—in addition to their misery—will be very high.

Florida is trying to meet this need, but we cannot do it alone. There is a responsibility on the part of the Federal Government where States such as Florida have had a tremendous immigration of older people, to take this into consideration. I am not sure just how we should have special consideration, but I think this should be given some consideration by your committee as to whether or not there could be some way of handling the programs for the elderly so that we can give some additional relief in handling the tremendous number of people in the older age bracket who live in Florida at present time. This should be over and above the differential recognized in the percentage of population over age 65 used in the formula for the distribution of Older Americans Act funds. Thank you very much.

[The prepared statement of Ms. Jacks follows:]

PREPARED STATEMENT OF MARGARET H. JACKS

Mr. Chairman and members of the committee; I appreciate the opportunity of speaking with you on the Gramm-Rudman-Hollings bill and the President's 1987 budget, as both will impact on programs for the elderly. Because of the large percentage of older people living in Florida, these matters are of great concern to not only state government but to the advocates, such as myself, who know only too well that reductions in funding can do to those programs which provide for the well-being of our older citizens.

Fortunately, many of the elderly in this state are not dependent upon state or federal programs—75 to 80 percent are able to live independently with adequate income, fairly good health and the ability to handle their affairs without assistance. In fact, the income of retirees and their skills and knowledge are a real asset to

Florida. Their income from public retirement benefits, such as Social Security, Railroad Retirement, Veterans benefits, etc., bring over $22 billion per year into the state's economy.

The other 20 to 25 percent of Florida's elderly have some form of chronic or acute health problems, mental health problems that affect their independent functioning, inadequate income, with little or no opportunity to supplement this adequate income to meet their needs through employment, problems related to housing, loneliness-related isolation and loss of loved ones.

Unless there are a variety of programs, social services, medical care and mental health services available to supplement a person's ability to function as they grow older, we can expect an increase in the expenditure of funds for more expensive services, such as nursing home care. As the projected increase in the number of older persons occurs in our nation and our state, a greater need for services will occur. Florida is making a tremendous effort to meet these needs now and in planning for the future. Proposed cuts will make this very difficult.

Social Service Programs.—The cuts resulting from the Gramm-Rudman-Hollings bill, which will take effect on March 1, 1986, will reduce by 4.3 percent funds available under the Older Americans Act. This will affect funding of existing programs for the elderly in Florida by a reduction of $603,838 in administrative and service funds in 1986 for the remaining four months of the state's fiscal year. This will result in a cut of 87,500 meals at congregate sites, statewide, and 2,300 home delivered meals, statewide.

Included in these program cuts in administrative funds and additional service funds are supportive services and senior centers with the variety of services provided to the elderly in that setting. The provision of these programs will also be negatively affected by the loss of funds through reduction in revenue sharing and reduction of Community Development Block Grants. While exact figures are not available for all Florida communities, typically these cuts alone will cut Orlando, Florida's $6,000 grant to the Council on Aging and $51,000 for the meals on wheels program, and Orange County's $62,500 to meals on wheels, $12,000 to the Council on Aging, and $20,000 to the senior center. West Palm Beach anticipates a $1,000,000 cut in its transportation program for the transportation needy including the elderly.

Miami and Dade County will lose $655,000 support funds to meals programs and $84,000 for elderly transportation from federal revenue sharing and $317,460 in funds for transportation for the elderly by cuts in Community Development Block Grants. Dade County will lose $4 million in aging programs; a possible closing of 5 meal sites will result.

Should the Gramm-Rudman bill be triggered in 1987 and beyond, it could reduce the level of funding for such programs under Category II as much as: 25.5 percent in fiscal year 1987; 34.1 percent in fiscal year 1988; 40.7 percent in fiscal year 1989; and 44.5 percent in fiscal year 1990. In Florida, these cuts would directly affect the programs of Community Care for the Elderly, which is Florida's program to assist the elderly to remain in their own homes as long as possible, thus postponing unnecessary and more costly care in a long term care facility (nursing home, adult congregate living facility, etc.).

The proposed cuts will also negatively affect those supportive social services and senior center programs, meals on wheels, congregate meals and other preventive and supportive services which help older persons in their attempt to function to the highest possible degree of independence.

Florida is attempting to strengthen its adult protective services through amending the statute and adding additional protective service workers. Cuts in the 1986 budget will lessen the ability of the state to implement these badly needed services. Last year in one county in Florida, there was a 400 percent increase in abused elderly. A demonstration project in Gainesville, FL, is training relatives on the care of frail family members being cared for in the relative's home. The state budget cuts in 1985-86 will reduce these items by $218,568.

Long Term Care Ombudsman Council.—Florida has a very strong Long Term Care Ombudsman program acting as a "watch dog" over the well-being of residents of long term care facilities—nursing homes, adult congregate living facilities and foster homes. They respond to any complaint by such residents or persons acting on their behalf. The staff is very small, and the Council is made up of volunteers. This program will be seriously hampered in its work by the $6,022 cut required by the Gramm-Rudman bill.

With the projection of increasingly large numbers of elderly in our growing population, such cuts are extremely shortsighted. The nation and particularly Florida with its higher than national percentage of older people in its population cannot afford to let people, as they age, deteriorate and become more and more dependent on outside resources for their very existence. There must be an array of innovative services which help keep older persons in the mainstream of society providing opportunities for them to participate in community life as contributors, as long as they are physically and mentally able to do so.

Medicare.—The attempts of the President in his 1987 budget to reduce the cost of Medicare by increasing the premiums for part B participation from 25 percent to 35 percent of program costs by 1991 and raising the part B deductible from $75 to $100 in 1987 will not be acceptable to the majority of elderly recipients who are in the lower income bracket. It will pose a real hardship for many who depend almost solely on Social Security benefits for their support. I cannot speak for all other people, but I do believe that a large segment of the Social Security beneficiaries who have adequate income from other sources as well as Social Security would be willing to have such increases, especially if there were assurances that the savings would be put toward a reduction in the national debt.

Medicaid.—Medicaid programs provide grants to states for medical care for low income people. Florida has historically failed to take full advantage of all of the provisions of that program. However, for the past five or six years we have been expanding both program-wise and cost-wise. Reimbursement for nursing home care has increased and program-wise we have moved to wider coverage and to the use of Medicaid waivers for a variety of services.

The President proposes a cap on Medicaid expenditures at $23.6 billion. The proposal to cap expenditures at the 1985 level will offer particular difficulty in a state of such rapid growth as Florida, and because of one more recent expansion of the Medicaid program. This expenditure limit for medical payments represents a $1.3 billion reduction below current estimates for fiscal year 1987. The bill proposes to give states considerable flexibility in designing and managing their programs. The proposal will be of great concern in Florida where our Medicaid nursing home expenditures are the highest percentage of the Medicaid budget, this in spite of the fact that Florida's reimbursement for nursing home care is one of the lowest and only 1.5 percent of our elderly are in nursing homes, as against the national average of five percent plus. It would apprear that this is an attempt to place more responsibility on the states in meeting this particular need of the elderly and shift the cost of providing medical care to the states.

Florida's current resources are not adequate to assume increased responsibilities for providing this level of care without continued federal assistance. Any cut in the total monies available to provide nursing home care would have a serious effect on the well-being of the elderly being care for in such facilities and might well result in a two-tier level of care to the detriment of the quality of care provided to Medicaid recipients. We are still not too far away from the time when nursing homes were warehouses for the frail elderly with far from acceptable standards of care. We cannot let this happen again.

Social Security Benefits.—The President's 1987 budget maintains current Social Security benefits my including the cost-of-living adjustment for Old Age Survivors and disability insurance programs for the elderly and disabled. It also ensures that Supplemental Security Income (SSI) payments to the aged, blind and disabled with very low income will keep pace with the cost of living in 1987, with a projected adjustment of 3.7 percent in January 1987.

Food Stamps.—Under the President's 1987 budget, total budget authority for the food stamp program is reduced by $246 million from the fiscal year 1986 estimate. The specific effect of this cut on the elderly in Florida is unknown, but when we still have reports of older people being without adequate food because of low income, we cannot afford to accept this reduction. Our meals programs of congregate meals and meals on wheels are not available for all older persons who need them, and should not be considered as a possible resource to make up for the loss of food stamps.

The President's budget for 1987 will restore the Older Americans Act funds to the 1985 level. This is a positive factor in the current picture, but only provides for continuation funding with no provision for increased cost of living. However, the Congress must be aware of the results of the 1986 cuts and the actual suffering that will occur when needy elderly are denied the meals they depend upon for a large part of their daily nutrition, and there will be a need to closely watch future funding in this area.

HOUSING AND TRANSPORTATION

In a recent round of hearings concerning senior citizen needs, held in a number of communities all over the State, the two most frequently mentioned needs were housing and transportation.

Housing.—The cut in housing anticipated in the Gramm-Rudman bill in 1986, and reflected in the President's 1986 budget, will reduce the funds for elderly housing along with housing for other needy groups. This will impact negatively on programs to keep the elderly in the community and out of high-cost long term care facilities.

It is indeed unfortunate that the administration plans to reduce or discontinue many urban aid and housing programs. Adequate, appropriate, accessible and affordable housing is one of the most frequently identified needs of the elderly. While a high percentage of older people own their home, it frequently no longer meets their needs or is too costly in terms of upkeep, taxes and utility costs, or is in need of repairs.

Among other changes, the Department of Housing and Urban Affairs plans to eliminate urban development action grants, which foster private development in distressed areas where many older people live. The plan would also drop three housing programs that help to build or rehabilitate apartments for the elderly and other disadvantaged persons.

All of these changes will impact on the welfare of the elderly with inadequate or inappropriate housing.

Transportation.—Appropriate, accessible transportation for the elderly greatly affects their mobility and frequently results in their isolation from the mainstream of society. Transportation needs include routes accessible to their homes, specially-equipped buses for the disabled and portal-to-portal services for the frail elderly. These services are not universally available in Florida. The lack of such services results in a dependency on friends and relatives. While the general public is under the impression that the source of service is usually available, in reality it is not to any great extent. Having to depend on other individuals' "bounty" leaves the elderly frail person in an uncertain position, which can be demoralizing. Appropriate transportation must be available if society is to expect continued independency on the part of the elderly.

The President is recommending cuts in transportation funds, although I do not know the details of his proposals. However, concern should be expressed if these reductions negatively affect the already inadequate services for the elderly and disabled.

The CHAIRMAN. Thank you, Ms. Jacks. Ms. Bell.

STATEMENT OF BUDD BELL, COORDINATOR, CLEARINGHOUSE ON HUMAN SERVICES

Ms. BELL. Thank you, Mr. Chairman. I coordinate the Clearinghouse on Human Services, here in Tallahassee, FL, which has presently 63 statewide advocacy groups. Today, I am speaking on behalf of some 2 million Floridians who are constituents of the Clearinghouse. I am going to speak to the question of children since I have historically been a children's advocate, although I have to say the other part of the Bell family is identified with community care for the elderly and the Bell-Pepper program at Florida State University is proceeding very well in this State, as some of you may know.

I think the one thing we need to highlight for you today is first the axis between need and budget, second between budget and fiscal responsibility. We have succeeded in the last few years in reconciling the different kinds of interests, who have in the past have pitted one against the other in the budget process. I call that the "Pigs at the Trough Syndrome," that is, pitting children against the mentally ill, or aging against children, or handicapped against other kinds of need. In this State we have forged a very fine coalition of advocacy groups who have worked closely with Government at all levels to achieve some equity. I think it is for that reason that we are particularly concerned with the fiscal policies of our National Government, as they fumbled along in the last few years. We had a terrible encounter here in 1981, when we were first trying, with Secretary Pingree's help, to sort out the dastardly cuts in social programs.

Today, with Gramm-Rudman-Hollings Balanced Budget Act on the one side and the President's budget recommendations on the other, I am finding another conflict developing between exempt and nonexempt programs. We can see ourselves again finding all kinds of competitive and distressful situations developing between threats of real cutbacks and subsequent management cutbacks. I think it is essential for us to discuss programs and balanced budgets without pitting one group's needs against the other because as a child advocate, I do not have to remind you that in the struggle for crumbs the kids always lose, no matter who wins. Kids lose and certainly when we are in a stalemate between military and domestic spending that has evolved in the last few years. I think we all lose and particularly in Florida where we have so many new and extraordinary needs, such as refugees.

I am not nearly as frightened as our Governor of the terrorists and the drug assault as I am of a national budget which might be considered a dismantling of many life sustaining programs. I think when we hear about the reduction of the size of Government, what is really happening is a reduction of Government's responsibility for its citizens well-being. I think that is what we have to look at what we talk about when we talk about reduction of Government. Are we not talking really about the reduction of a government's responsibility for those things that will keep its citizens in a true state of national security and well-being?

You will find in my paper a reference to what I believe is one of the most exemplary cost avoidance humane programs that Florida has very creatively developed in the last few years. We call it IPOP, Improved Pregnancy Outcome Program, which has provided one of the most effective comprehensive prenatal care programs in this country at a very low cost. If we had as much money next year as we have had in the last 5 years, namely, $14 million, we could again reduce our annual 60,000 high-risk, low-weight babies to 20,000. The 3 percent high risk babies found in Sweden and France are an example of what we dream about in this country. But from a fiscal point of view, Florida could save almost $14 million if we spent that $14 million in protection of children from high risk and handicaps. We pay for it anyway, we pay for it everyday.

Is the President's pledge not to raise taxes so sacred as to allow the gutting of carefully built protections against shameful levels of infant mortality? When I came to north Florida as a volunteer 17 years ago, and I am today still a volunteer, I found in north Florida, infant mortality rates equal to those of Bangladesh. We have still counties that are three times the national infant morality level, so our IPOP has just begun to work.

If military buildups have to be protected, do food programs that have diminished hunger in America have to end? If mass transit is to be defunded as we hear, do we eliminate the kind of rural transport in Mr. MacKay's district and maybe even Mr. Mack's, that takes children to a threapy program that keeps that child from wearing braces for the rest of his life? Now, if we could run a special Concord-like transport to Tokyo in 2 hours, can we not take that child in a 2-hour bus trip from Jasper to Shands Hospital, Gainesville, in some kind of transportation arrangement? It seems to me that the same principle applies to day care, although the mayor from Sarasota did not worry about revenue sharing dropoffs and community development block grants because he does not have a day care program in Sarasota. The median age in Sarasota County is—What is it Margaret, about 76? [Laughter.]

So, except for some migrant programs on the fringes of Sarasota County that are very well looked after by a very fine 4-C for migrants——

The **Chairman**. Excuse me, Ms. Bell, may I ask you, would you repeat that again? [Laughter.]

Ms. **Bell**. I do not know the exact median and I am married to a researcher in gerontology who would be very angry with me if he heard me say into this microphone that the median age was 76 without the backup data.

Mr. **Mack**. I can give you the information since I represent that district.

Ms. **Bell**. What is it?

Mr. **Mack**. The district that goes from Sarasota down to Naples, FL, is the oldest district in the Nation.

Ms. **Bell**. Port Charlotte and all that?

Mr. **Mack**. The average age is 48.9.

Ms. **Bell**. OK, so there are not too many preschool children and it is likely there are not too many preschool children in Port Charlotte or preschools that are being funded through migrant education.

The **Chairman**. Forty-eight years; that is old, is it not?

Mr. **Mack**. That is young; what are you talking about?

The **Chairman**. I still have a few more years to get there. [Laughter.]

Ms. **Bell**. The point I am making is that in this State where we have only $10 million in general revenue for day care and we finally have moved it, Mr. MacKay will be happy to learn, since he remembers when we had a paltry $1.75 million in general revenue match to bring down the 75–25 Federal grant. Florida is one of the few States that does not provide a 25 percent match; we have only a 12½ percent match. It is a cut and deal that we made way back in 1982 with the State budget director. If you will remember, Mr. MacKay, he really did not like day care but he gave us a little bit anyway.

I did a quick and dirty study last night. If we lost the existing grants that are now providing the local match, and they range from 9 percent in Leon County to 40 percent in Dade County, in Dade County alone gentlemen, 4,000 children will be removed from our subsidized day care slots. No wonder Commissioner Ruvin of Dade County was a little agitated about that part of the Gramm-Rudman-Hollings consequences.

Head Start in this State is in a similar position. If the present budget in 1987 is to be believed, which only serves 20 percent of the eligible children in Head Start in this State, 2,000 more children will by next year be cut out of our program.

I do not know what affordable housing the Governor was referring to, but I know of no affordable low-cost housing in Florida. We have an estimate of one-half million housing units unfit for human habitation at the present time in Florida. We are just beginning to talk about affordable housing, but if the elimination of the loan programs for housing that are being talked about are put into effect this will create a further particular dilemma in this State. So far as I can judge, we as yet have not embarked on an affordable housing program.

I have one tabulation in my paper on what we can lose in our maternal and child health program. But I have also an excerpt from a Florida listing on military spending. I was intrigued by the $4.9 million for an aircraft acoustical enclosure for Cecil Field Naval Air Station and the $3.7 million for bachelor enlisted quarters at that facility. I hope the base in question is not in the district of either of the Congressmen here from Florida, but if it is, they should be interested in the fact that we do not have any quarters anywhere that are being planned for single mothers with children.

As I worked on this statement, I was reminded of a poster on my wall that has been there for many years, for I am a day care person, that says, "It'll be a great day when our day care centers have all the money they need, and the Navy has to hold a bake sale to buy a battleship."

I know this is not the time for humor and certainly hurt and lonely and hungry children will not laugh this year, if we cannot treat them or help them.

In closing I would like to suggest to you that we have many others in this State who would volunteer both here and in Washington, to advise you on the concerns that we have about the budgetary threats to major human needs.

[The prepared statement of Ms. Bell follows:]

PREPARED STATEMENT OF BUDD BELL

Mr. Chairman, and other members of this panel:

I am Ms. Budd Bell, of Tallahassee. I am the co-ordinator of the Clearinghouse on Human Services, an informal coalition of presently, sixty-three statewide advocacy organizations, who in turn represent some 2,000,000 Floridians ranging from the youngest to the oldest citizens, many of them impaired.

The Clearinghouse had succeeded in melding the interests of many groups into a collective oversight role; for all levels of government, local, state and federal, we have been available to interpret need, provide data and help elected representatives achieve more equity in their budget process for their constituents.

We have been particularly successful, since the bitter cuts in domestic programs initiated federally in 1981, in being able to keep all our program advocates together, allied with each other in the common goal of protecting constituencies from being abandoned by a society which, ironically, is pledged "to the general welfare."

Assaults on the vulnerable of our communities is not new, and have increased steadily as the fiscal policies of our government have thundered along more and more wildly. Now the President's budget recommendations coupled with Gramm-Rudman-Hollings, create another grave threat. We see a wedge developing between "Exempt" and "Non-Exempt" programs, and the reversal to former times where, with threats and real cut-backs, groups are pitted against each other; young against old, mentally ill against physically handicapped, hungry against chronically ill in what I have called the "Pigs at the trough" spectacle; clients degraded, deprived, denied, often the children since they have few vested interest lobbies.

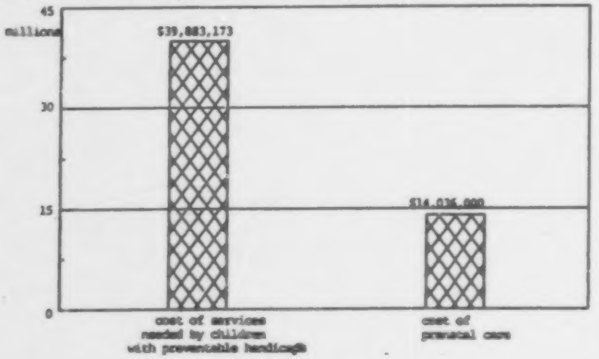
It is essential to find alternative methods to achieve a balanced program to reduce the deficit without pitting advocates of one group in need against another. As a child advocate, I will tell you that in a struggle for crumbs, the children will always lose, no matter who wins, and certainly when we're in a stalemate between military and domestic spending, we all lose. There seems a basic contradiction in the President's recommendations that to reduce the size of government we must shift the burden for services to states and local governments and private contributions, and then his plan to leave all major weapons systems intact and include a 75% increase with research for "Star Wars." The cutting or even

Academy of Florida Trial Lawyers*Alliance for the Mentally Ill*American Civil Liberties Union*American Assn. of Retired Persons*Big Bend 4C*Children's Home Society*Community Action Programs*Council of Parents of Exceptional Children*Council for the Hearing Impaired*Developmental Disabilities Council*HRS District Advisory Council*Father Flanagan's Boys Home*Florida AFSCME*Florida Association for Alcohol and Drug Abuse*Florida Assn. for Health and Social Services*Association of Homes for the Aging*Florida Association of Jewish Federations*Florida Assn. of Rehabilitative Services*Florida Assn. of Retarded Citizens*Florida Catholic Conference*Florida Center for Children and Youth*Clearinghouse on Criminal Justice*Florida Child Care Providers Forum*Florida Council on Aging*Florida Council of Handicapped Organizations*Florida Council on Community Mental Health*Florida Group Child Care Assn.*Florida Health Care Association*Florida Epilepsy Foundation*Florida Impact*Florida Network of Youth and Family Services*Florida Parent Teacher Association*Florida Pediatric Society*Florida Society on Autism*Governor's Committee on Advocacy D.D.*Governor's Constituency for Children*Hurricane Outward Bound*Guardian Ad Litem-State Courts*Juvenile Alternative Services Programs*League of Women Voters*Mental Health Association of Florida*National Association of Social Workers*National Council of Jewish Women*Parent's Anonymous of Florida*Refugee Information Network of Florida Inc.*State Family Planning Advisory Council*Spina Bifida Association*Society for Hospital Social Work Directors*State Human Rights Advocacy Committee*State Long Term Care Ombudsman Committee*United Cerebral Palsy of Florida*United Way of FL*Yes Inc* dismantling of many life-sustaining programs only means we reduce the size of government's responsibility for its citizens well-being, not the size of government.

Some of Florida's most creative programs are at grave risk. Florida's Improved Pregnancy Outcome Program (IPOP) provides comprehensive prenatal care for eligible women through a network of public health clinics. It includes education on health practicies, regular checkups, a risk assessment, and instruction in how to recognize the symptoms of preterm labor. IPOP allows a flexible use of monetary resources, so that services can be tailored to the needs of a community.

MATERNITY CARE SAVES FLORIDA MONEY

IF 58,000 WOMEN WHO ARE AT OR BELOW THE POVERTY LEVEL RECEIVED QUALITY EARLY MATERNITY CARE FLORIDA WOULD SAVE AN ESTIMATED $25,847,173 ANNUALLY



(Source: Florida Department of HRS, Maternal & Child Health)

High-risk, low-weight births have been reduced from 60,000 to 20,000 annually since the inception of this program. In 1986, with $13 million we were on the way to eliminating unnecessary handicaps in newborns, even approximating, soon, the 3% rate which countries like Sweden and France have achieved because of their heroic programs.

- Is a President's pledge not to raise taxes so sacred as to allow the gutting of carefully built protections against shameful levels of infant mortality?

- For military build-ups to be protected, do food programs that finally diminished hunger in America have to end?

- If mass transit is to be defunded do we eliminate "special-needs" rural transport to health clinics and day care?

- If Medicaid is to be lowered, or capped, do we threaten our long awaited medically needy program which was to finally begin in July of 1986?

Now we have finally achieved the care of nearly 28,000 infants and preschool children in subsidized day care in both public and private settings with a General Revenue match finally at $10 millions after 10 years. This has come through the continued work of advocates and state government as they recognized the role of day care, not only as a magnificent instrument to decrease dependency and poverty but also a splendid protective service for children at risk. Still there are 23,000 children waiting, often with single female heads of those households waiting to enter the labor market. Not only are cuts in the Social Services Block Grant a threat to this imperative program; we face the double threat that will arise when the proposed cuts in Community Services Block Grants and Urban Development Action Grants threaten the community share of the local match for drawing down Social Services Block Grant monies. Unlike many states, where the 25% local match to the 75% federal is made up by state revenue, Florida has chosen to provide only 12½% leaving the other 12½% to come from city, county and private contributions. The range of pass-through monies is a 9% amount in Leon County to about 40% in Dade County - a frightening prospect!

Similarly, the threat to Head Start is particularly ironic, coming as it does when the Perry High Scope Study (Ypsilanti, Michigan) confirms the great advantage that Head Start graduates take with them into their school years. Here in Florida, the Gramm-Rudman-Hollings Act will threaten a program that currently serves only 20% of the eligible population in Florida. The forecast for 1987 would be 2,000 less children than presently receiving not only excellent child development stimulation but health and support services as well. It would appear that the very success of this program has doomed it!

The elimination of loan programs for housing creates a particular dilemma for our state since we have no low-cost affordable housing programs for low-income families with young children. It has been estimated in Florida that there are more than half a million housing units unfit for human habitation at the present time.

If we are truly troubled by threats to national security, I would posit that some of the greatest threats to the security of the American family today may be the lack of affordable housing; staggering figures in black unemployment; poverty and disabilities that follow teenage pregnancies; divorce rates and abusive families; a frightening lack of good health care for children and too often, subsequent substance abuse.

These threats we cannot leave to the Defense Department for protection. This we must prevent by a national policy that says families and children are important.

Below we have two lists depicting first, the federal reductions resulting from Gramm-Rudman-Hollings for Florida:

GRANT	CURRENT AWARD	REDUCTION FEDERAL FISCAL YEAR 1985-86	REDUCTION STATE FISCAL YEAR 1985-86	%	REDUCTION STATE FISCAL YEAR 1986-87
Social Services Block Grant	$122,557,109	$5,269,956	$3,011,403	2.4	$2,258,553
Low Income Home Energy Assistance	31,726,109	1,364,223	1,227,801	2.6	136,422
Alcohol/Drug Abuse Mental Health	24,033,000	1,033,419	590,525	2.3	442,894
Older Americans Act	40,976,195	1,761,976	603,838	1.5	1,158,138
Maternal and Child Health	11,912,216	512,225	292,700	2.3	219,525
Preventive Health Block Grant	2,682,085	115,330	65,903	3.3	49,427
Education for Handicapped	2,035,159	87,512	12,501	.6	75,011
Work Incentive Program	3,656,443	157,227	89,844	2.1	67,383
TITLE X Family Planning	5,031,952	216,374	--	2.6	216,374
TITLE IVB Child Welfare Services	7,787,590	334,866	191,352	2.6	143,514
Venereal Diseases	1,234,484	53,083	22,750	2.1	30,333
Immunization	1,234,278	53,074	--	--	53,074
Vocational Rehabilitation Services SEC 110	40,832,657	1,510,502	863,144	2.1	647,358
Child Support Enforcement	24,779,000	1,185,848	417,420	1.6	768,428
	$320,478,277	$ 13,655,615	$7,389,181		$6,266,434

BEST COPY AVAILABLE

The second is a brief listing of items from President Reagan's fiscal 1987 budget, which must be approved by Congress, amounting to $112.1 million for military construction funding in Florida:

- $8.4 million for barracks at the Naval Training Center in Orlando.
- $4.9 million for an aircraft acoustical enaclosure at the Cecil Field Naval Air Station and $3.7 million for bachelor enlisted quarters at the facility.
- $3.4 million for a dining hall and "troop issue facility" at Homestead Air Force Base.
- $2.6 million for aircraft corrosion control facilities at Patrick Air Force Base.

I am reminded of a poster on my wall that says,

> "It'll be a great day when our day care
> centers have all the money they need
> and the Navy has to hold a bake-sale
> to buy battleships."

But this is not a time for humor, since hurt, lonely, hungry children cannot laugh. Thank you for the opportunity to present some of our concerns to your committee. I am available for any questions which you may have regarding these and other funding concerns.

The CHAIRMAN. Thank you very much, Ms. Bell. Before we proceed, Congressman Mack has to leave. He just wants to make a comment.

Mr. MACK. I would like to stay and listen to the balance of the testimony, but we did schedule the time so we would be through now and in order for me to get back to a commitment that I made in my district I have to leave now. I appreciate your taking the time in being with us today and I apologize in having to scoot out before you are through.

The CHAIRMAN. I will assure you, Congressman Mack, that we will make sure that all of their testimony is printed in the record so you will not miss a word of it. We want to thank Congressman Mack. We are behind schedule but we are going to proceed. We would hope that you would be able to summarize as quickly as possible, so we can get at the questions and make your major points. Mr. Ruggiero, president of the Florida Chapter of NARFE.

STATEMENT OF ROCCO RUGGIERO, PRESIDENT, FLORIDA FEDERATION OF CHAPTERS, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

Mr. RUGGIERO. I am sorry to see that Representative Schumer left because I wanted to assure him, because he is so young, that we had rattlesnakes in Brooklyn back in the 1930's, 1940's, and 1950's.

Mr. MACKAY. They have still got them. [Laughter.]

Mr. RUGGIERO. I am the president of the Florida Federation of Chapters of the National Association of Retired Federal Employees and I speak in behalf of the 132,244 Federal annuitants residing in the State of Florida.

As you begin your deliberations on the fiscal year 1987 Federal budget, we ask you for fairness in that portion of the budget that deals with Federal retirees and their survivors. Federal retirees spent their careers in the service of our country at salaries lower than their counterparts in outside industry for the promise of a worry free retirement. Despite the administration's rhetoric on the contrary, civil service benefits are modest and do not vary greatly with the retirement benefits of other career employees.

As of October 1985, the average monthly annuity was $1,119 for retirees and $423 per month for survivor annuities and these annuities are fully subject to the taxation at all levels of government and may I add that the survivor benefits are paid for by the annuitants after he retires. Federal retirees have had only one COLA since April 1983, and that was a 3.5 adjustment effective December 1, 1984. Yet, between April 1983, and December 1985, the CPI has risen 10 percent and now in your fiscal year 1987 budget, the administration is recommending that Federal retirees be denied any further inflation protection until January 1988, and then—and thereafter advocate that the COLA's of civil services retirees and survivors be held at 2 percent less than the CPI measure of inflation. Using the administration's own inflation projections, if the two COLA restrictions that are advocated are adopted, the civil service annuity in the 5 years between 1983 and 1988 will suffer a reduction in their purchasing power of his or her annuity of 12.5 percent.

Congressman Pepper, who we all admire here in the State of Florida and I am sure that you people do up in the halls of Congress, I think he hit the nail right on the head when he suggested that the corporations pay their fair share of taxes. He mentioned 100 large corporations, I think the latest figure was something like 250 large corporations, did not pay one single dime in taxes. We honestly believe in everyone paying their fair share.

As former employees of all agencies of the Government, we know the consequences of unbalanced budgets. Everybody doing his or her share will ensure a balanced budget. We would like, all of us I am sure, to see a zero inflation rate, but that is not possible. We know it, we all see it going on everyday. All we ask of the Congress is to be fair to everybody. Everybody must take their share in the cuts, not only Federal annuitants, military retirees, or anybody else.

There should be no sacred cows any place in Government and we all share in the ideals of a balanced budget. We would love to see a balanced budget so our children do not have to pay our debts, but we ask fairness across the board.

I recently participated in an organizational project on balancing the budget with five different special interest groups of which we were part of with five high school students. In 4½ hours, us four little neophytes who really do not know anything, with the structure actions that were put up by CLOSEUP, in 4½ hours, we came out with a 5-year project of not only a zero deficit but a $32 billion surplus and assuming—and I would assume that we certainly were off—assuming that we were off by $100 billion, which is a lot of money, we would still only be holding a $64 billion deficit, which I am sure that we could all live with. So, all we ask of you is do not pick on any one group.

[The prepared statement of Mr. Ruggiero follows:]

PREPARED STATEMENT OF ROCCO RUGGIERO

Mr. Chairman, honorable committee members, my name is Rocco Ruggiero. I am the president of the Florida Federation of Chapters National Association of Retired Federal Employees and I speak in behalf of the 132,244 Federal annuitants residing in the State of Florida.

As you begin your deliberations on the fiscal year 1987 Federal budget, we ask you for fairness in that portion of that budget that deals with Federal retirees and their survivors. Since 1976 Federal retirees have suffered $40 billion in cuts to the benefits they earned in their lifetime careers in the service of our country. On top of that they suffered another crushing blow dictated by the Gramm-Rudman-Hollings Budget Balancing Act of 1985 that took away the 3.1 percent cost of living adjustment (COLA) that had previously been approved by Congress in August 1985. That blow would have been easier to swallow, had COLA been removed from all Federal programs.

Federal retirees spent their careers in the service of our country at salaries lower than their counterparts in outside industry for the promise of a worry free retirement with COLA to ensure that their purchasing power would not decrease, when the Consumer Price Index (CPI) increases. Instead in 1977 Congress voted that employees retiring after October 30, 1977, could no longer receive Social Security under their spouses Social Security monthly payments, thus depriving Federal retirees benefits enjoyed by retirees in outside industry. In 1981 the semi-annual COLA was changed to an annual COLA. In 1983 COLA was delayed 1 month and cut in half for retirees under age 62. In 1984 COLA was delayed for 8 months. Finally the Gramm-Rudman-Hollings Budget Balancing Act of 1985 removing COLA for fiscal year 1986 and making it problematical through fiscal year 1991. Many of our people can ill afford the loss of the estimated $6,000 in purchasing power that that would entail.

Federal annuities are not the great giveaway that they have been pictured by our adversaries. Approximately 57 percent of the Federal annuitants receive annuities of less than $1,000 a month. About 16 percent (mostly survivors) receive less than $500 a month. The average annuity is approximately $1,200 a month, with less than 2 percent of the annuitants receiving more than $2,500 a month. The statement that many annuitants now receive more than when they were working is misleading, as it does not take into account that in most cases salaries have doubled and even tripled, since their retirement. In fact several years ago Congress enacted legislation that prohibits annuitants from receiving annuities greater then the current salary of the position they retired from.

We ask you to close the loopholes that free many of America's richest corporations from paying any taxes. We believe that everyone should pay his/her fair share. As former employees of all of the agencies of the United States Government, we know the consequences of an unbalanced budget. Everybody doing his/her part will ensure a balanced budget.

We would like nothing better than a zero inflation rate, so that there would be no need for a COLA. Since that is not a fact, we ask you to protect our purchasing power in our declining years, by granting COLA, when it becomes necessary.

Thank you for allowing me to make this presentation.

The CHAIRMAN. Thank you, Mr. Ruggiero. Mr. Cannon.

Mr. CANNON. Thank you, Chairman Gray.

The CHAIRMAN. Would you pull that mike over and begin. We urge you to summarize, so we can get to the questions.

STATEMENT OF L.K. CANNON, PAST PRESIDENT, CITRUS COUNTY RETIRED OFFICERS ASSOCIATION

Mr. CANNON. I will. I will summarize it. It is a pleasure to be here, Chairman Gray, and members of the committee. Can you hear me all right?

The CHAIRMAN. Yes, but take your hand off the microphone. That is what makes it sing like that, I think.

Mr. CANNON. If it does not work, I have a loud voice.

The CHAIRMAN. That sounds like a good preacher's voice. Go right ahead.

Mr. CANNON. Well, I am a retired Army officer.

The CHAIRMAN. Oh, then that is even better.

Mr. CANNON. And I am talking about the retired officers.

The CHAIRMAN. OK.

Mr. CANNON. And they know we have a serious problem. We ought to solve our problem, this deficit problem and we know you have got a can of worms to solve and we hope you can be creative and that you can do the things necessary to get this deficit reduced, and ultimately eliminated. We are willing to do our share to help you do it, but let us be fair and equitable. We feel that the action taken on the COLA thing, that was previously mentioned, singling out the military was not fair and equitable. We think you chickened out for political reasons, but we want to see this deficit reduced because we think it could be devastating. it could be devastating to our lower ranks of enlisted personnel who are retiring, to the widows and to other people. We have a feeling for those people. We will bite the bullet, but just let us be fair.

Another thing that has bothered us a little bit and this could have an adverse affect on the active military. Now, historically, the military—you told them to do something and they did it; right? They saluted and did it regardless of personal risk. We do it right today. We will continue to do, but let me say this. Every soldier is a patriotic American who believes that the Government is going to be fair with them. He really believes that, therefore, he is willing to go out and put his neck on the line for us. So, let us not do anything, fellows, to change that feeling. Let us not erode their faith. Let us keep faith with them and do not discriminate against them. That is the only message I want to bring to you and as far as solving our problem, one thing that would help you is the revenue enhancement that has been mentioned. There are a lot of ideas about how you can do that and we are for that.

Thank you for letting me come.

The CHAIRMAN. Thank you very much, Mr. Cannon, and I think you made the point real clear.

Gosh, there is so much I could ask each one of you.

Mr. MACKAY. Remember, you took the pledge, too, Mr. Chairman.

The CHAIRMAN. I know, and Congressman MacKay who rides herd on me says you have got to make the pledge.

Let me say I wanted—I want to ask really two questions for clarification. Ms. Bell, you said 4,000 children would lose day care——

Ms. BELL. Could lose day care.

The CHAIRMAN [continuing]. Could lose day care if this budget and its priorities are put in place.

Ms. BELL. If the cuts in programs that are being recommended for extinction succeed.

The CHAIRMAN. Yes, I understand. Now, is that 4,000 children in Florida or just in Dade County?

Ms. BELL. No, just in the Dade County area.

The CHAIRMAN. Could you answer another question? Are those children of working parents?

Ms. BELL. All of them. I am talking about title 20——

The CHAIRMAN. I understand.

Ms. BELL [continuing]. Subsidized day care which you know has eligibility that they are very narrow.

The CHAIRMAN. I understand that. I am very familiar with all that. I just want to make sure I heard 4,000 and I heard Dade County.

Ms. BELL. We have 28,000 children in care in Florida under that program.

The CHAIRMAN. Let me ask you another question. Now that you have seen the budget priorities and after listening to the President use the word "family" 16 times in the State of the Union, do you feel that the budget policy is consistent with the goal and values stated in the State of the Union?

Ms. BELL. I think the proposed budget is the greatest threat we have today to the American family and to the continuity of that family, whether that be a single parent with children or an intact family where there is an unemployed father or whatever the circumstances may be.

The CHAIRMAN. Let me just say that I, too, agree with that statement. I am not too proud to say that I think this country ought to care about children although we have got a deficit problem, we cannot reduce the deficit—you do not have to do it on the backs of the children. If you talk about family, you talk about getting folks off welfare. If there is a working mother out there who wants to go to work or if there are two people who want to go to work somehow, you know, government in partnership with others could find them help. So, I was just startled by that.

Another question that I wanted to mention to Mr. Pingree. You talked about the health issues. Are you familiar with the cuts that are proposed in the President's budget on health?

Mr. PINGREE. I believe so.

The CHAIRMAN. Do you concur with those priorities in Medicare and Medicaid?

Mr. PINGREE. No.

The CHAIRMAN. Do you concur with the statement made here earlier by a person who testified that those cuts could be absorbed in the administration and not cut benefits?

Mr. PINGREE. I do not believe they could be absorbed in the administration.

The CHAIRMAN. Thank you. The gentleman from Florida, Mr. MacKay.

Mr. MACKAY. I will be very brief, I just want to make a statement. I think that what Mr. Ruggiero said and what Mr. Cannon said and what every one of you have said, you can be satisfied by a Federal priority that says we are going to start out with across-the-board spending freezes, we are going to treat everybody the same, we are going to require all program managers to take the same degree of a cut. There are no sacred cows. I believe the American people will support it, I believe Floridians will support it and I believe senior citizens will support it and I think that is the way we ought to start. I think we ought to review every program.

It was interesting to hear the earlier panel because they made it clear that have two opposite philosophies, but they both said we ought to review every program and make sure that it is being run efficiently. If I felt we had done that, I would feel much better about it. I do not think we have reviewed every program in the military. I do not think we have reviwed every program in the social program areas either. I believe there are better ways to do welfare and I believe the States have got a lot to tell the Federal Government. I am very pleased with this panel and I think it is one of the most useful panels we have had. Thank you all very much.

The CHAIRMAN. The gentleman from Washington.

Mr. LOWRY. Thank you, Mr. Chairman. I would just echo what Congressman MacKay said. This has been a very good panel and I want to thank you for coming.

The CHAIRMAN. Thank you very much, we want to thank the panel. We call to the witness table the business, economic development, and job training panel: Phil Emmer, Home Builders Association of Florida; Tom French, the Mortgage Bankers Association of America; Jimmy Davis, budget officer, Florida Division of Vocational and Adult Education, and I also have left out Jack Demetree. I am told he is now here. We apparently thought for a moment he was not here and so on my sheet he is crossed out. So Jack Demetree as well as Phil Emmer of the Home Builders Association of Florida; and Tom French, Mortgage Bankers Association; and Jim Davis, budget officer, Florida Division of Vocational and Adult Education.

Gentlemen, as you can see we are running 1½ hour behind schedule. We want to move as quickly as possible. I would ask you as I am asking those who are coming next on the next panel, crime and drug interdiction and veterans, if you would just focus on the main points you want to make. We will include the entire testimony in the record.

We will have to have a technological pause. A technological pause as our stenographer has to change tapes.

[Brief pause.]

Mr. MACKAY. OK, I think Mr. Emmer can lead off. Go ahead, Mr. Emmer.

STATEMENT OF PHIL EMMER, HOME BUILDERS ASSOCIATION OF FLORIDA, ACCOMPANIED BY JACK DEMETREE

Mr. EMMER. Thank you very much Mr. Chairman, Mr. MacKay, Mr. Lowry. My name is Phil Emmer and I am a homebuilder from Gainesville, FL, with building operations in various areas of the State. I am going to do precisely what Mr. Gray has asked and synopsize my comments and then try to make some points that you may not be aware of since you gentlemen are dealing at the top level.

It is indeed an honor to appear before you today and a privilege to say that homebuilders greatly respect you, Mr. Chairman, for your leadership and foresight in bringing these hearings to people around the country.

Our message remains quite simple, Mr. Chairman. Homebuilders continue to believe firmly that the No. 1 issue affecting the health of the economy is the deficit. We continue to support broad-based, across-the-board spending reductions and are willing to support additional broad-based revenues if necessary to bring the budget into balance.

We did 3 years ago, when homebuilders launched a campaign to increase the awareness of the deficit as a ticking time bomb. We did it again in 1984 and 1985 and for fiscal year 1987, we offer our support for responsible implementation of Gramm-Rudman-Hollings Act in an effort to balance the budget by 1991 and adherence to the targets of Gramm-Rudman. We would hope this committee would seriously consider broadening the base of the deficit reduction, as Congressman MacKay mentioned a few minutes ago, to incorporate all retirement, domestic, and defense programs as well as adding revenues if necessary.

However, we are concerned that the administration's budget proposal does not meet any fair test of across-the-board budget reductions and relies heavily on OMB "philosophy" which only masquerades as deficit reduction.

From 1980 to 1986, the budget authority for housing at the Department of Housing and Urban Development was reduced by over 60 percent. If all other Departments had enjoyed, if that is the word to use, similar reductions, the Government would be operating at a substantial surplus today. The administration's HUD proposal for 1987 would reduce the 1986 level by an additional two-thirds, making a total 85 percent reduction since 1980 and virtually shutting down the Department's programs, not to mention the Farmer's Home Administration programs for rural housing, which are proposed to be reduced to zero in 1987.

The other main issue of the administration's budget is one of OMB philosophies, the imposition of new taxes on the Federal credit activities of FHA, VA, Fannie Mae, Ginnie Mae, and Freddie Mac. Attached to my testimony is a chart which more clearly explains the various fees and their impact on potential home buyers. They are called user fees.

Collectively, the proposals will exert upward pressure on interest rates, raise the amount of cash required to close on a home, undermine the operations of the secondary mortgage market, price out of the market thousands of moderate income buyers and slow new housing construction and home sales.

The new restrictions would more than double the amount of cash required to close on a typical FHA or VA loan. Qualifying for a loan and coming up with the required cash to close on a loan are the toughest problems confronting first-time buyers and veterans, including those still in the service. By doubling that amount, as the administration proposes, thousands of potential buyers would be bumped out of the market.

In my own case, in a subsdivision that I am developing now near Homestead, FL, directly across from the entrance to the Homestead Air Force Base, approximately 50 percent of our buyers are service families. The effect of this new law would devastate them. There is a shortage of on-base housing for families in this area and probably in most military bases around the country. This creates a dependency on housing close by the base. Almost always, the families we serve are cash poor. They have to produce $1,600 to $1,700 for our average $70,000 home and mostly they scratch for that. Under these new provisions this will be doubled and they and we,

by the way, will be devastated. Interestingly, in most cases the housing allowance averaging almost $700 per month for most of our customers is almost enough to meet the monthly payments of $700 to $750. So, that is why I say the downpayment is the problem.

A second major problem is created by the new restrictions, which you may not even be aware of, which will prevent eligible veterans, including in-service personnel, from using their VA benefits more than once. What happens to these veterans and their families as they get transferred from base to base over the years. They will be devastated, too.

Still another problem is created by the fact that up until now, they could get an FHA loan for in-service personnel. With these new requirements, they will need about 10 percent cash down, a not inconsiderable amount of money for these servicemen. They are currently required to pay a downpayment of 5 percent less $500, plus mandatory closing costs. This new requirement will knock these people right out of the home ownership market and with what is happening with the new requirements for rental housing the situation is not very pleasant.

I would like to make a couple other very brief points.

A new income cap of $40,000 would eliminate about one-third of those currently using FHA financing.

A new overall ceiling on VA insuring authority could severely restrict or cut off the no downpayment VA loan program by March 1. About 80,000 veterans could lose their benefits if this entitlement program were restricted.

In addition, the administration proposes to impose new fees on the operations of Fannie Mae and Freddie Mac and raise fees for Ginnie Mae. More than half of all mortgage credit now flows through the secondary mortgage market. A good portion of that tax will undoubtedly reach the families taking out the loans.

The timing of these budget proposals could not be worse. Given the troubled state of the private mortgage insurance industry, it should be readily apparent that the private companies are ill-equipped to absorb additional underwriting risks at this time—a fact that even those that support the general concept of privatizing the mortgage insurance business should recognize.

Furthermore, the restrictions and taxes for housing credit programs has aboslutely nothing to do with meaningful deficit reduction efforts.

The idea that you can help cut the deficit by increasing fees for credit programs is misguided and ill-conceived. In fact, it could easily backfire because of the decline in housing construction and loan activity under these programs.

It has been estimated that these changes proposed for the housing credit programs could result in the loss of 100,000 housing starts annually which in turn would wipe out about 175,000 jobs, $3¼ billion in wages and $1½ billion in local, State, and Federal tax revenues.

As in years past, we are prepared to take our fair share of budget reductions under the Gramm-Rudman formula, but we urge you to look closely at the administration's proposal for housing and see whether you agree with us that it is just not fair the way it is now. And finally, we urge you to separate religion and philosophy from deficit reduction and to reject the "housing tax" on mortgage credit which will severely hurt first time home buyers and veterans at the lower end of the market and do nothing to reduce the Federal deficit.

Mr. Chairman and members, I thank you very much for the opportunity to present the views of the National Association of Home Builders and Mr. Demetree and I will be happy to answer any questions you may have at the appropriate time. Thank you.

[Testimony resumes on p. 453.]

[The prepared statement of Mr. Emmer follows:]

Prepared Statement of Phil Emmer

Mr. Chairman, Mr. MacKay, Mr. Mack, and Members of the Committee:

It is indeed an honor to appear before you today and a privilege to say that Homebuilders greatly respect Chairman Gray for his leadership as well as his foresight in bringing these hearings to the people around the country. We support your efforts to measure the impact of proposed budget cuts on individuals as well as the various sectors of the economy.

Homebuilders also have the greatest respect for two of Florida's own, Mr. MacKay and Mr. Mack, for their untiring efforts to achieve meaningful, broad-based, deficit reduction. We are pleased to have been able to support their efforts in the past and look forward to working with them this year. I also wish to recognize the report just released by Mr. Schumer which shows that urban areas would fare poorly under the Administration's budget.

Our message remains quite simple, Mr. Chairman. Homebuilders continue to believe firmly that the number one issue affecting the health of the economy is the deficit. We continue to support broad-based, across the board spending reductions and are willing to support additional broad-based revenues, if necessary, to bring the budget into balance.

Three years ago Homebuilders launched a campaign to increase the awareness of the deficit as "a ticking time bomb." We called for across-the-board cuts in defense, entitlements and domestic programs, and for increased revenues. In 1984, we called on both Congress and the Administration to again focus on the "big ticket" items which had been ruled off limits from the budget process. We called for the scaling back of defense spending and for the containment of the soaring costs of entitlement programs which at that time, coupled with interest on the debt, exceeded 80 percent of the federal budget. We supported the MacKay proposal as the most responsive approach.

In 1985, we again called for an across the board freeze in defense, entitlements (including Social Security) and domestic programs and we were willing to accept an additional 10 percent reduction in domestic programs beyond the freeze level. The MacKay/Leath/Slattery proposal came the closest to achieving those goals.

For FY 1987 we offer our support for responsible implementation of the Gramm-Rudman-Hollings Act in an effort to balance the budget by 1991 and adherence to the targets of Gramm-Rudman even if the mechanism is determined to be unconstitutional. However, we would hope this Committee would seriously consider broadening the base for deficit reduction to incorporate all entitlement programs, domestic programs, defense and revenues if necessary.

However, we are concerned that the Administration's budget proposal does not meet any fair test of across-the-board reductions and relies heavily on OMB "philosophy" which only masquerades as deficit reduction.

I believe that a brief history of budget cuts since 1980 will demonstrate that hosuing has already borne a grossly disproportionate share of budget reductions.

From 1980 to 1986, the budget authority for housing at the Department of Housing and Urban Development was reduced by over 60 percent. If all other Departments had enjoyed similar reductions, the Government would be operating at a substantial surplus today. The Administration's HUD proposal for 1987 would reduce the 1986 levels by an additional two-thirds, virtually shutting down the Department's programs. And the Farmers Home Administration programs for rural housing are proposed to be reduced to zero and transferred to HUD in 1987.

The other main issue in the Administration's budget is one of OMB philosophy -- the imposition of new taxes on the federal credit activities of FHA, VA, Fannie Mae, Ginnie Mae and Freddie Mac. Attached to my testimony is a chart which more clearly explains the various fees and their impact on potential homebuyers.

Mr. Chairman the so-called "user fee" issue was debated during the budget process last year and you wisely did not include any new user fees on mortgage credit in last year's budget. We urge you to hold firm against these fees again this year.

Collectively the proposals will exert upward pressure on interest rates...raise the amount of cash required to close on a home...undermine the operations of the secondary mortgage market...price out of the market thousands of moderate-income buyers and slow new housing construction and home sales.

For a moment, let's take a look at the new rules for the credit programs proposed in the Administration's budget.

-- The new restrictions would more than double the amount of cash required to close on a typical FHA or VA loan. Qualifying for a loan and coming up with the required cash to close on a loan are the toughest problems confronting first time buyers. By doubling that amount, as the Administration proposes, thousands of potential buyers would be bumped out of the market.

-- A new income cap of $40,000 would eliminate about one-third of those currently using FHA financing.

-- A new overall ceiling on VA insuring authority could severely restrict or cut off the no-downpayment VA loan program by March 1. About 80,000 veterans could lose their benefits if this entitlement program were restricted.

-- In addition, the Administration proposes to impose new fees on the operations of Fannie Mae and Freddie Mac and raise fees for Ginnie Mae. More than half of all mortgage credit now flows through the secondary mortgage market. A good portion of that tax will undoubtedly reach the families taking out the loans.

The timing of these budget proposals couldn't be worse. Given the troubled state of the private mortgage insurance industry, it should be readily apparent that the private companies are ill equipped to absorb additional underwriting risks at this time -- a fact that even those who support the general concept of privatizing the mortgage insurance business should recognize.

Furthermore, the restrictions and taxes for housing credit programs have absolutely nothing to do with meaningful deficit reduction efforts.

The idea that you can help cut the deficit by increasing fees for credit programs is misguided and ill-conceived. In fact, it will backfire because of the decline in housing construction and loan activity under these programs. In other words, the loss of loan activity, construction related jobs and tax revenue generated, in part, by today's mortgage finance system and housing credit programs would more than offset any additional revenue the government could expect to collect by increasing the fees.

It has been estimated that these changes proposed for the housing credit programs could result in the loss of 100,000 housing starts annually, which, in turn, would wipe out about 175,000 jobs, $3.25 billion in wages and $1.5 billion in local, state and federal tax revenue.

Mr. Chairman, we are not here to say "don't cut you, don't cut me, cut the fellow behind the tree." We are prepared to take our "fair share" of budget reduction under the Gramm-Rudman formula -- whether that be a 13% cut for domestic programs or a 20% cut for domestic programs depending upon the deficit projection. But we urge you to look closely at the Administration proposal for housing and see whether you agree with us that it is just not fair. And, finally, we urge you to separate religion and philosophy from deficit reduction and to reject the "housing tax" on mortgage credit which will only hurt first-time homebuyers and veterans at the lower end of the market and do nothing to reduce the federal deficit.

Thank you for the opportunity to present our views. I would be happy to try to answer any questions you may have.

PROPOSED USER FEES ON MORTGAGE CREDIT ACTIVITY

The aggregate effect of the Administration's user fee proposals for 1987 and 1988 will:

- Raise mortgage interest rates, and increase up front cash requirements exacerbating affordability problems;
- Decrease housing starts by as much as 100,000 units;
- Decrease new home sales by 60,000 units and existing home sales by 250,000 units;
- Result in a loss of 175,000 construction and construction-related jobs.

Federal Housing Administration (FHA)

- Increase the Mortgage Insurance Premium from 3.8 percent to 5 percent, and no longer permit this fee to be amortized as part of the mortgage.

  RESULT: Would double the cash requirement at closing, thereby disqualifying thousands of first-time homebuyers. Combined with the GNMA increases below, this is the equivalent to a 40 basis points (4/10 of 1%) increase in mortgage interest rates.

Veterans Administration (VA)

- Increase the up-front loan guarantee fee from 1 percent to 3.8 percent.

  RESULT: On a $63,264 loan (VA average in 1985), the up-front payment would increase by $1,754. Combined with the GNMA changes below, this is equivalent to a 66 basis points (2/3 of 1%) rise in mortgage rates, thereby disqualifying many veterans.

Government National Mortgage Association (Ginnie Mae)

- Increase user fees for GNMA mortgage backed securities from the current 6 basis points (.06%) to 15 basis points in 1987 and 20 basis points in 1988 and beyond.

Federal National Mortgage Association (Fannie Mae)

- Charge 5 basis points on mortgage backed securities in 1987 increasing to 10 basis points in 1988 and beyond.
- On new or rollover debt, charge a user fee of 10 basis points in 1987 increasing to 30 basis points in 1988 and 50 basis points in 1989.

Federal Home Loan Mortgage Corporation (Freddie Mac)

- Charge 5 basis points on pass-throughs in 1987 increasing to 10 basis points in 1988.
- On net new debt charge 10 basis points in 1987 increasing to 12 1/2 basis points in 1988 and 15 basis points in 1989.

The **Chairman**. Thank you very much. We will move now to Mr. French from the Mortgage Bankers Association. Welcome, Mr. French.

Mr. **French**. Thank you, sir.

The **Chairman**. I see you are not Mr. Emmer. [Laughter.]

In case you are wondering why I said that, for those of you who are sitting here in the audience, we have the signs all reversed. Only Mr. Demetree and Mr. Davis have the correct signs. Go right ahead, please.

STATEMENT OF THOMAS M. FRENCH, JR., CHAIRMAN OF THE BOARD, STOCKTON, WHATLEY & DAVIN, CO., AND DIRECTOR OF MORTGAGE BANKING, BANK OF BOSTON, ON BEHALF OF THE MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. **French**. I want to compliment Mr. Emmer on that fine testimony, which I think was outstanding and I will try not to cover the same areas which he has in his comments.

My name is Thomas M. French, Jr. I am chairman of the board of Stockton, Whatley & Davin in Jacksonville, FL, and director of mortgage banking for the Bank of Boston. I am also president-elect of the Mortgage Bankers Association of America and, as the chairman knows, we, the Mortgage Bankers Association, are not here looking for appropriations. We are defending our lives. The Federal housing programs are, in our judgment, under siege from the OMB and we mean to defend them because we think they are meritorious and make a positive contribution to our country. The members of our association are not seeking appropriations and by and large they are heavy taxpaying corporations and not among the companies listed above that pay nothing, I assure you.

The second point we want to make is, we consider it most unfortunate that the OMB and others have decided that the housing industry is so vigorous that it can be subject to taxation and without great difficulty. Somewhere in the rhetoric of our Nation at the moment, something has happened, so that if you characterize a tax as an enhancement, it passes muster with all concerned and the President will not veto it. On the other hand, if you classify it as a tax and say that publicly, then it will be vetoed. Our point is that user fees are obviously and clearly a tax—the administration has never publicly stated that the user fees are based on cost. As a practical matter, all of the housing programs are self-sufficient. The user fees are already in place, save only the VA program, which is an entitlement program and there, if the Congress in its wisdom, decides that the VA program—that the veteran is no longer entitled to a special housing benefit then that is a matter of judgment.

It occurs to me when I think about that, that when I came home from combat in World War II, the only reason I got an education is because I went through on the GI bill and the only reason my wife and infant child had a place to live is because we closed a VA loan at 4 percent for $7,200 and moved into a 900-foot cracker box which we dearly loved. Not only that, we made each and every payment when they came due and I submit to this committee and to the Congress that—those who have benefited from the GI bill have paid more than the cost of the administration of the program many times over.

We have done considerable study concerning the programs and the effect of the user fees. Right now, a classic example of what is going on with the Gramm-Rudman limitations and the desire of the administration to, as Dr. Frankel has said, get the Federal Government out of housing is clearly evidenced in what is happening to the VA program right now. You may be aware that VA announced within the past week that they are running out of guaranty authority and a sort of panic has set in, as the whole VA program is in trouble because of the limitations imposed. Now, this may be appropriate, but it is not working well. The second thing that is going to happen when the VA entitlement is used up, and the cutoff time is the end of this month, is that then a run will be made for entitlement of the FHA program and then if the user fees are imposed, the first thing you know, we will not have an actuarially sound program and those who could help balance the program are going to be excluded and it goes on and on.

I do not know if the attacks that are being made on housing through this budget and the administration's proposal are carefully designed to imperil the life of the Federal housing programs, but they appear to us to be going to have that effect unless we mount a successful defense.

[Testimony resumes on p. 461.]

[The prepared statement of Mr. French follows:]

PREPARED STATEMENT OF THOMAS M. FRENCH, JR.

Mr. Chairman and members of the Committee, my name is Thomas M. French, Jr. I am Chairman of the Board of Stockton, Whatley & Davin Company, and Director of Mortgage Banking for the Bank of Boston mortgage companies. I am also president-elect of the Mortgage Bankers Association of America. MBA appreciates the opportunity to present its views on the impact that Fiscal Year 1987 budget proposals, recently submitted by the President to Congress, would have on housing and mortgage finance.

There is no doubt that the current high deficits are unsustainable and the compounded impact of those deficits will create unprecedented problems for this Nation's economy. This year will present tough budget choices to the Congress as it reviews proposed spending cuts mandated by the deficit targets contained in the Gramm-Rudman Balanced Budget Act and the tax reform proposals currently being considered by Congress. MBA strongly supports efforts to reduce the deficit. To this end, we have supported spending cuts wherever possible, stressing that all programs, including Social Security, defense, and cost of living adjustments should bear a fair share of necessary cuts. If these are not sufficient to accomplish deficit reduction, Congress should be prepared to increase taxes, but such increases should be broad-based and not focused on any one sector of the economy.

One item of major concern to MBA as the trade association responsible for preserving an adequate and affordable supply of mortgage credit is the proposal to impose so-called "user fees" on the home mortgage insurance and guaranty programs of the Federal Housing Administration (FHA) and the Veterans Administration (VA), as well as the secondary mortgage market operations of the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA). The specific proposals are described in detail in the Attachment to this statement.

EXAMPLES OF IMPACT OF INCREASED USER FEES ON HOMEOWNER

The Administration's proposals for FHA, VA, and GNMA would hurt moderate-income and veteran homebuyers using the FHA and VA programs mainly by doubling cash required of homebuyers at loan closing.

FHA

		Under Current Program		Under Administration Proposals
Average Price of FHA home		$59,500		$59,500
Closing Costs (2%)		1,190		1,190*
Total Acquisition Cost (TAC)		60,690		59,500
Minimum Downpayment		2,535		2,475
Basic Loan Amount (BLA)		58,155		57,025
Mortgage Insurance Premium (MIP)	(3.8%)	2,210**	(5%)	2,851*
Total Loan Amount		60,365		57,025
Cash to close, net of downpayment and GNMA fee		1,454***		5,466***
GNMA fee (first year, .2%)		N/A		114
Total Cash Required at Closing		3,989		8,055 (102% more than the costs under the current rules.)
Monthly Payment (30-year, 10.5%)		552		522

* This amount must be paid in cash.
** Added to loan amount, financed over loan term.
*** Sum of prepaids at 1.5% of BLA and one discount point of BLA.
**** Sum of 2% closing costs, MIP, prepaid items at 1.5% of BLA and one discount point of BLA.

VA Home Loan Guaranty Program

		Current Program		Administration Proposal w/ Guaranty Fee Paid in cash		Administration Proposal w/ Guaranty Fee Financed in loan
Average Price of VA home (no downpayment loan)		$62,638		$62,638		$62,638
Loan Amount		63,264		62,638		65,018
VA Guaranty Fee	(1%)	626*	(3.8%)	2,380	(3.8%)	2,380*
Closing Costs (2%)		1,253		1,253		1,253
Prepaid Items (1.5%)		940		940		940
GNMA Fee (first year, .2%)		N/A		125		125
Total Cash Required at Closing (net of equity)		2,193		4,698		2,318
Monthly Payment (30-year, 10.5%)		579		573		595

* Added to loan amount, financed over loan term.

The concept of a user fee, in my mind, must be tied to the cost of providing a service. In that sense, the FHA unsubsidized mortgage insurance programs have always been subject to user fees because the mortgage insurance premiums that are charged to borrowers have always covered the costs of operating these programs, including administrative expenses such as salaries, overhead, etc., as well as losses attributable to default claims that must be paid. The Mutual Mortgage Insurance Fund is a substantial reserve fund of $3.7 billion that ensures that these programs will operate on an actuarially sound basis. Thus, the cost of providing the service that the Federal government offers—mortgage insurance—is fully covered at present by user fees. Yet this proposal would increase those fees so that the Federal government would derive a larger profit from these program operations. Some call that revenue enhancement, but I believe it boils down to a tax on homeownership. And that tax is focused on those who can least afford it—moderate-income homebuyers at the lower end of the scale. The average FHA loan in 1984, the latest year for which statistics are available, was approximately $57,581 and many FHA borrowers are first time homebuyers who need the FHA low-downpayment program to get their foot in the homeownership door. The maximum loan that FHA may insure is $67,500 and up to $90,000 in designated high cost areas; these limits serve to focus the benefits of the FHA program on those who need them.

In addition to user fees, the Administration's proposal would eliminate the provisions in current law that allow FHA borrowers to finance the up-front mortgage insurance premium (MIP) and closing costs, and would establish an income limitation of $40,000 per year for FHA borrowers. The effect of this trio of FHA proposals would raise the cost of participating in the program, while simultaneously limiting participation to those least likely to be able to afford the "new" program.

By itself, the proposal to limit the financing of the up-front MIP and closing costs is enough to cripple the program. Such a prohibition effectively doubles the minimum downpayment that borrowers now make, thus eliminating one of the key advantages that the FHA program offers moderate-income homebuyers.

Not only would new FHA borrowers be worse off than current FHA borrowers, they would also be worse off than borrowers with conventional, privately insured mortgages. The typical, first-year mortgage insurance premium on a fixed-rate, high-ratio conventional loan is 1 percent, with renewals at 0.25 percent. Thus, a conventional borrower, in terms of cash at closing and monthly payments, will be considerably better off than the FHA borrower. However, much tighter conventional underwriting requirements will disqualify many potential borrowers that FHA presently is able to serve.

With respect to the proposed $40,000 income limitation for FHA-insured borrowers, it should be noted that in 1985, the median income of all FHA borrowers was $35,000. Thus, nearly half the people who used the program in that year, when it was more affordable than it will be under the President's proposal, would not have been eligible under this income limitation. In 1986, the limit would reduce the annual dollar volume of mortgage loans insured by FHA by $9.3 billion below the anticipated 1986 volume, resulting in the exclusion of roughly 163,000 families from the program.

Currently, in order to keep risks and fees at a reasonable level, the program is open to all families so that the risks inherent in the FHA program are spread over a large number of persons with varying degrees of financial capability, rather than being concentrated on a smaller number of less financially secure persons. Without this broader degree of risk-sharing, the fees would have to be raised beyond the point of affordability in order to cover losses.

The VA Home Loan Guaranty program is an entitlement program and is not designed to be actuarially sound. While there may be some validity in determining the actual cost of operating the VA loan program and imposing a user fee matched to the costs of operations, MBA takes strong exception with the proposal to increase the fee to 3.8 percent, which would convert this worthwhile program from an entitlement to a government sponsored profit generating program.

Not only would the proposals hit the VA loan guaranty and FHA insurance programs hard, but it would also impose an additional layer of fees on secondary mortgage market entities. GNMA, FNMA, and FHLMC are all chartered by Congress. Their Boards are wholly or partially staffed by presidential appointees and their purpose is carefully outlined in their Charter Acts. They may only purchase residential mortgages and are all subject to limits on the maximum dollar amount for the mortgages that they purchase.

Despite this high degree of governmental control and oversight, the budget proposes user fees that exceed the cost of operating these entities, all of which do not cost the Government a penny. GNMA currently charges a guaranty fee that not only covers the costs of program operations and claim losses, but also is sufficient to set aside funds for a substantial reserve, which currently totals over $1 billion. Both FNMA and FHLMC currently charge user fees to lenders for mortgage purchases and guaranties of mortgage-backed securities, which are set at levels designed to cover FNMA's and FHLMC's costs and underwriting risks. None of these entities require any Congressionally appropriated funds to operate.

Yet these operations would also be subject to user fees, totally unrelated to program risk, under the Administration's budget proposal.

Charging fees to users of the government's housing and mortgage credit programs for the purpose of enhancing revenues is a thinly disguised tax that is targeted toward home-buyers at the lower end of the scale. These proposals will increase mortgage rates generally and thus are contrary to the Congressional purpose of fostering homeownership through these programs and entities. If Congress believes that the only avenue left to cut deficits is that of taxation, then those taxes should be broad-based—not concentrated on the home borrower.

Thank you for this opportunity to testify today. If you have any further questions, I would be happy to provide answers or information now or for the hearing record.

Attachment

PROVISIONS AFFECTING HOUSING PROGRAMS
FOUND IN THE PRESIDENT'S
1987 BUDGET PROPOSAL TO CONGRESS

FHA. Increase the MIP from 3.8 percent to 5 percent in FY 1987. Additionally, in an effort to restrict the program further, the proposal would not allow the upfront MIP or other closing costs to be included in the mortgage amount. The proposal would also limit the availability of FHA mortgage insurance to families with gross incomes below $40,000. Finally, the proposal would remove authority to insure second homes and non-owner occupant loans. The budget also proposes a feasibility study for the sale of FHA.

VA. It is expected that the Administration's budget will again propose an increase in the VA funding fee from the present 1 percent to 2 percent in FY 1987, 3.0 percent in FY 1988, and 3.8 percent by FY 1990. The proposal may also include a request to cut personnel at VA offices.

GNMA. Increase the guaranty fee from the current 6 basis points to 15 basis points in FY 1987 and 20 basis points in FY 1988 and beyond.

FNMA. User taxes would be imposed on FNMA, as follows:

Debt Securities

The fee will apply to net new FNMA debt securities issuances. This is defined as:

- any increase above the level of FNMA debt securities outstanding on September 30, 1986, plus
- the lesser of:
    - FNMA debt issued prior to FY 1987 rolling over in FY 1987 and beyond, or
    - repayments and prepayments on mortgages purchased prior to FY 1987.

This fee will be increased as follows: 10 basis points in FY 1987, 30 basis points in FY 1988, and 50 basis points in FY 1989 and beyond.

Mortgage-backed Securities

In FY 1987, FNMA will be charged a fee of 5 basis points on mortgage-backed securities sold after September 30, 1986. This will increase to 10 basis points in FY 1988 and beyond on all securities sold after September 30, 1986.

FHLMC. User taxes would be imposed on FHLMC, as follows:

Non-CMO Debt Securities

The fee will apply to net new FHLMC debt securities issuances, which are defined as:

- any increase above the level of FHLMC debt securities outstanding on September 30, 1986, plus

- the lesser of:
  - FHLMC debt issued prior to FY 1987 rolling over in FY 1987 and beyond, or
  - repayments and prepayments of non-CMO-backed mortgages purchased prior to FY 1986.

This fee will be increased as follows: 10 basis points in FY 1987, 12.5 basis points in FY 1988, and 15 basis points in FY 1989 and beyond.

Participation Certificates (PCs)/Collateralized Mortgage Obligations (CMOs)

In FY 1987, FHLMC will be charged a fee of 5 basis points on PCs and new CMOs issued after September 30, 1986, and 10 basis points on net new unsecured debt obligations in 1987. This fee on CMOs will be increased to 10 basis points in FY 1988 and beyond. The fee on net new unsecured obligations will rise to 12.5 basis points in 1988, and to 15 basis points in 1989 and beyond.

The CHAIRMAN. Thank you very much, Mr. French. You have been very, very clear. Mr. Davis, we invite you as budget officer of the Florida Division of Vocational and Adult Education, if you could maybe summarize your testimony.

STATEMENT OF JIM DAVIS, BUDGET OFFICER, FLORIDA DIVISION, VOCATIONAL AND ADULT EDUCATION

Mr. DAVIS. Chairman Gray, members of the committee, I would have hoped that Representative Schumer could have been here, so I could refer to the rattlers and let him know that they are not nearly as dangerous as some of the other aspects around Brooklyn. [Laughter.]

Mr. MACKAY. Do not worry, I will make sure he knows that.

Mr. DAVIS. At least they have a warning signal. [Laughter.]

The CHAIRMAN. Did you say warning?

Mr. DAVIS. And when he says there are not any, I am reminded of a friend of mine who carried me hunting and told me that he did not have any and we stood on one that night.

Mr. MACKAY. The truth is, Mr. Chairman—pardon me for interrupting, he did not stand on it. He stepped on it and the next thing I knew he was about 8 feet up. [Laughter.]

Mr. DEMETREE. Do you mean that is the friend sitting up there, Mr. Davis?

Mr. DAVIS. Yes, there is something about rattlesnakes that causes you to go up.

Mr. FRENCH. And away.

Mr. DAVIS. Among other things. Let me talk a little bit about vocational education and I want to assure you that it is an honor to be here and appear before you on behalf of many people in Florida who seek an education and certainly a total education that will provide them an opportunity to move into an occupation in their lifetime.

The States certainly have the responsibility for education. In Florida, the State does spend $20 for every $1 received from the Federal Government. The dollars—the Federal dollars spent are those dollars that we utilize to expand our programs with a national focus. Let me talk just a little bit about that national focus and why we must have a national focus.

First of all, we must have the national focus if industries in this country are to be able to move to any State and be successful, in terms of findings employees for their companies, where they invest lots of dollars. A builder or anyone else does not expect to move to a different part of the State or the Nation and find a different kind of a carpenter. They expect them to have those competencies necessary to carry on that business, therefore, we must have, in place, dollars to provide the kind of curriculum and the kind of standards that will permit us to train persons to meet the needs of the industries in this country. Aside from that, we have to have dollars for staff development. We have to update our instructional personnel and supervisors and administrative people, so that they can possess the kind of skills they can go back in industry, come back out and possess the skills necessary to teach the people who must go out into the world to work. We must have career guidance. If we are to have people going into the transit programs that industry tells us they need to be in, so they can hire them, we must have career guidance at an early age to move people into those directions.

We are going to have to have programs for potential dropouts in our school systems and I am sure, Congressmen, you are aware that only about 20 percent, if that many, of our people—young people today get—the high school level, only about 20 percent of those people get to postsecondary or universities. We are going to have to provide an education for those people so that they can become occupational proficient and not go on to roads of welfare in our society. The absence of Federal vocational education funds would heavily impact the State both economically and socially.

Our high technology programs, the program where we have to buy certain equipment and keep them up to date. If we do not have the Federal dollars to assist us with that impact, we are not going to be able to train people on the kind of equipment necessary to go into the industries and produce, be it Martin Marietta or be it a new piece of equipment that builders are using today. We do not do roofing any longer with a hammer and some tacks. They have a kind of equipment now that you must use even putting up the walls.

Reduce access to vocational education and training by special student populations would deny these citizens the privileges of self-sufficiency and contributor of community living which result from successful participation in the world of work. They want to be self-sufficient, they want to be taxpayers. Not only would their lack of economic contributions hurt Florida, but also, their potential dependence on Florida's government would increase. It would tax other resources.

Career information, guidance, counseling, placement services, all of these areas would suffer. Vocational education is cost effective. For every dollar put in programs, services and activities, multiple dollars are returned as benefits to the State and to the Nation. Vocational program training for immediate entry level of employment results in human and economic benefits, with local and State and national impact and as I conclude, I want to be sure that you and the people in industry understand that in vocational education, we are no different than any of the best military institutions in our Nation. You have to understand that West Point has never graduated a general. They graduate second lieutenants and they become generals. We graduate second lieutenants and the industry people help us make the generals in vocational education. Thank you.

[The prepared statement of Mr. Davis follows:]

PREPARED STATEMENT OF JIM DAVIS

States must take primary responsibility for education. In Florida, the State spends $20 of State funds to $1 of Federal funds. The Federal portion is expended to insure national focus.

There must be a national focus for vocational education if we, in the individual states, are to meet the needs of the businesses and industries of our nation, especially those businesses or industries that might choose to relocate or expand.

There must be a national focus for vocational education if we, in the individual states, are to provide education and training for a mobile population which continually is on the move for health or other reasons, enabling them to continue in an occupation, to upgrade their skills and/or to change an occupation. There must be a national focus with the kind of support systems provided that will contribute to a quality work force.

To meet the needs of our society, be it the mobile sector or the permanent sector, we must have in place a system to provide:

Curriculum Development With A National Focus.

Program Standards And Development Activities With A National Focus.

Planning By Local and State Level Personnel For Vocational Education Programs, Services and Activities.

Staff Development Activities That Will Allow For The Upgrading Of Teachers And Administrators So That They Might Keep Up With Technological Changes.

Career And Occupational Guidance.

Occupational Exploration.

Programs For Potential Dropouts.

Occupational Programs At The Secondary And Postsecondary School Levels.

Evaluation At The Local, State And National Levels.

Assistance In Keeping Equipment Up-To-Date.

Florida has made phenomenal progress in vocational education in the past 25 years. Vocational education programs, services, and activities are within commuting distance of the State's population; Florida's citizenry is aware of the availability and value of vocational education designed to help provide a more meaningful life. A greater variety of training programs, more qualified teachers, many improved and new training facilities, up-to-date equipment, and additional thousands of successful graduates are all a part of the impact of Federal dollars to the states.

The absence of Federal vocational education funds would heavily impact the State of Florida both economically and socially. There would be a direct correlation between the withdrawal of Federal funds and the negative impact on Florida's business, industrial, educational and social communities.

High technology programs would have to be curtailed or dropped. For example, Federal funds used to develop, implement and maintain Florida's Centers for Electronic Emphasis are matched one-for-one with State funds.

Labor market data critical to support local planning for vocational education programs would be affected—amount of data, scope of data—both would be negatively affected.

Research, curriculum and personnel development would suffer significant losses. Currency of vocational programs, services and activities would be diminished.

The acquisition of state-of-the-art equipment for training purposes would be significantly more difficult than it is currently.

The development of student performance standards would be restricted, seriously affecting effectiveness and accountability.

Industry Services would have reduced capacity to provide training programs to assist in the relocation of industry to or the expansion of industry in Florida.

Reduced access to vocational training by special student populations would deny these citizens the privileges of self-sufficiency and contributory community living which result from successful participation in the world of work. Not only would their lack of economic contributions hurt Florida, but also their potential dependence on Florida's governmental human service systems would consume additional economic resources.

Leadership from the State level would be diminished resulting in reduced technical and consultative services to local administrative and supervisory personnel.

Career information, guidance counseling and placement services would suffer. Specific programs such as Computer Assisted Placement Services, Career Resource Centers, and Student Assessment services would, in all likelihood, be dropped.

Program review and other evaluation activities would have inadequate resources to continue.

Vocational education is cost effective; for every dollar put into programs, services and activities, multiple dollars are returned in benefits. Vocational programs train for immediate entry level employment, resulting in human and economic benefits with local, State and national impact!

The **Chairman**. Thank you, that is a very interesting analogy.

Let me just say to Mr. Emmer, Mr. Demetree, and Mr. French, I am glad that you call a rose a rose. There is a lot of hanky-panky with language that says there are no taxes, but I think you all are aware that in the President's budget, there are $29 billion of new taxes over 6 years. Included in that is the revenue enhancer called a user fee that will be applied in the housing area and I think that we all want to be aware of that.

The second thing that I would say is this. Housing, investment in housing, and getting housing moving in this country is one of the most productive things we can do in terms of job creation, entry levels, vocational education, and turnover in the community. I have not been able to understand why last year these user fees were suggested for housing. Which I think they would have a negative impact on the ability of lower-middle income and middle-middle income people to acquire the American dream, which is that little salt box that you first bought or that little house that I first bought with a—I was getting ready to say VA, but it was not. Yes, it was, it was a VA loan and I would not have been able to have bought my first one and I worked 18 months before I got married. I had a long engagement. [Laughter.]

I would not have been able to buy that house because I did not have the requirement for the 20 percent down, that was one of the reasons why I was able to buy that house and I was pastoring. I think all of you know I am a Baptist preacher. I was pastor of a church in a very swank upperclass community like Sarasota—no, excuse me, Montclair, NJ, is to New Jersey what, you know, Sarasota is here. All right, a very upward middle-class community and I could not afford to buy a house in that town until I ran into this little house that had a VA mortgage that I could pick up without a huge down payment. I do not know why they keep doing it, but I can tell you right now, Congress rejected it last year. I have a very strong feeling and I do not usually predict, but Congress is going to reject it again this year because the user fee is even worse, more regressive, more negative than it was last year.

But in this part of the phony rhetoric around the President's budget, he says no taxes last night and I am going VOA it. If they say it is DOA, I am going to VOA it. There are 29 billion dollars' worth of new taxes and all of them are levied on working class people, all of them, changes in retirement programs like black lung and increases payment premiums, user fees like in housing, are taxes. Not on the wealthy, not on the people who are not paying taxes, but on the people who want simply to do what all Americans have been longing to do in each generation and sought to do, which is get a little piece of the rock. You know, a little piece of land——

Mr. DEMETREE. Yes, that is right.

The CHAIRMAN [continuing]. With a house on it, get that paid for, and then who knows, you get lucky and can move up to a big one and so forth and so on. It is sort of like that Mayflower moving commercial that you see those folks. The management trainee buys the first little house and then the last one, he has eight vans in front of this huge $2 million house because he is chairman.

In conclusion of my statement, and then I am going to pass, there are also a lot of other funny parts to this budget on which you did not comment, but you alluded to in terms of OMB. This is selling off America, piece by piece and calling it deficit reduction.

Last year the administration criticized the House Budget Committee because we dipped into the cash register for off-shore oil receipts. This year they are going to sell the cash register as well as the building that it was in. It is sort of like selling your garage off so you can pay your mortgage this month. Then next month you have to pay another mortgage payment, so you have to sell something else, a bathroom, kitchen, or living room. I do not think the House Budget Committee is going to support that kind of hocus-pocus deficit reduction.

I yield to the gentleman from Florida, Mr. MacKay.

Mr. MACKAY. Well, I just want to express my appreciation as far as the effort last year to pass legislation that would have been an across-the-board freeze with some taxes hooked to it. I expressed my appreciation to the homebuilders for getting out front. Maybe we were ahead of our time. I personally think that is still the way to do it and I think we are going to have another shot this year. You all have been willing to put yourselves on the limb is getting a little hot right now. Some people are beginning to say, well, I really was not for all that. I personally think if we make it fair to everybody, the American people know that we have got to do it and they are prepared to support it.

Mr. EMMER. Mr. MacKay, if there had been more time I would have just liked to have said that we would support the MacKay, Leath, Slattery position even now. I wanted to say that we certainly do believe that we must—I do not know that I said it strongly enough, we must get rid of these deficits and we think the fair way to do it is by cutting all these programs equally, plus eliminating those that have outlived their usefulness which I think you have already said.

Mr. DEMETREE. If it is done equally, then there is no need for additional revenue.

You know, it has never made any sense to me. As the gentleman from Miami said here, from Dade County, he said, please do not cut off my money even if we have to have more taxes. It has never made sense to me to increase the taxes on the national level so we can send it up there for them to send it back down to us.

Why does he not go ahead and just simply do what he has to do in his county to raise what is necessary to cover his programs rather than ship that money to Washington? It is still what is being taken out of the individual's pocket but, as Mr. Emmer said, our position is, we are willing to take our fair share of all the cuts.

It just needs to be done fairly across the board. The builders have always supported it and I believe the American people will sincerely support it if you say it is fair and equal. Some of us perceive right now that maybe the Federal defense is still not fair, but if it is fairly done it will be supported.

I will make one more comment and I am sorry, Mr. Chairman, I did not have a printed statement but they called me last night and asked me to come over here today.

The CHAIRMAN. You are doing all right.

Mr. DEMETREE. The FHA has made it possible in this country for every American to have a home. You know, we are the best housed nation in the world, maybe next to Australia. I think Australia might have 1 or 2 percent better than we are on the number of homes, but we are the best housed people and it is directly due to the Federal Housing Administration since 1935.

It is unbelievable to me that they would tinker with it when it does not cost, you are not going to reduce one nickel in the Federal deficit by doing anything in the FHA program. I mean it has done nothing but make money, and I will reiterate, without it we would not have a stable market and you, as well as I and most of the people in this room, could have never afforded that first house. So I ask you to stay as you did last year and just not let them tinker with it.

The CHAIRMAN. The gentleman from Washington.

Before I yield, I should tell you some bad news, Mr. Demetree. We have looked at an across-the-board freeze and we are waiting for the CPO, the estimates of the President's budget, but even if he froze everything at exactly the same dollars in 1987 that you gave people in 1986, that would mean holding the Pentagon to the exact same standard, and I hear you say you are willing to do that. Of course the President is not. If he did that, just gave everybody the exact same dollars, you would come down to about $155 billion. You still would have to go below that by about $10 billion to get to the Gramm-Rudman minimum of $144 billion. This is not in disagreement with what you are saying——

Mr. DEMETREE. I understand.

The CHAIRMAN [continuing]. Because I was one of those who supported my colleague, Buddy MacKay, in the Democratic Caucus. I think that by the time you got down to it there would have been a whole lot more who would join that parade.

I just want you to know that the deficit situation is so bad, the red ink is so deep as a result of these fiscal policies of these last 5 years, it has taken the national debt from $914 billion to $2 trillion and deficits from $40 and $50 billion to over $220 billion.

It is so deep and so bad that even an outlay freeze would still require you to cut an additional $10 billion to hit that $144 billion. I am not disagreeing with you.

Mr. DEMETREE. Oh, I understand.

The CHAIRMAN. I think that is a very feasible way to go, by the way.

Mr. Lowry, the gentleman from Washington, who serves on the Banking, Finance and Urban Affairs Committee in our Congress.

Mr. LOWRY. Thank you, Mr. Chairman.

I have always opposed the user fees, I have always been opposed by the realtor associations in my State because I am opposed to the voting of defense increases, and so on, that together with tax cuts is what caused the deficit. I just want to ask one question relative to the freeze.

Do you think it is fair to freeze the cost-of-living adjustment for Social Security recipients whose total income is under $10,000 a year, which is one-third of all Social Security recipients or about half that number, somewhere in the area of 15 percent, whose total income is under $5,000 a year? Do you think that we should freeze their cost-of-living adjustment or do you think it would be fairer to tax Social Security benefits, but give the COLA, so that we are not freezing that? I heard you say that you think we ought to freeze everything.

Do you think it is fair to freeze the cost-of-living adjustments for Social Security recipients who are living on $5,000 a year totally?

Mr. DEMETREE. Congressman, I do not think that you, as a body, should pass the rule which was what was done when they passed the COLA, saying to all of the Congresses in the future that this is what should be done and you all do not need to discuss it. I think that should be addressed every year, just exactly like you address all the other issues with the budget every year. Why should there by anything automatically built in?

Mr. LOWRY. That was not my question. My question——

Mr. DEMETREE. Well, to freeze the COLA?

Mr. LOWRY. You are for freezing the cost-of-living adjustment for $5,000 a year total income to seniors?

Mr. DEMETREE. Sir, I am saying freeze them and let the Congress decide each year whether there is to be an increase.

Mr. LOWRY. But freeze them for the year 1987, which is this year? Do you want——

Mr. DEMETREE. Yes, sir; I would freeze them for this year.

Mr. LOWRY. OK, write me off on a fee increase which I have opposed every time. Your total income, sir, is $5,000; what is your answer?

Mr. EMMER. Mr. Lowry, I do not think it is that cut and dried.

Mr. LOWRY. Well, that is what a freeze is.

Mr. EMMER. Unfortunately, it is a loaded question, like have you stopped beating your wife. My mother, who is 87 years old and in good health, has a worth, almost all in cash, of about $1 million. I happen to be from Miami and my father, now deceased, was a close friend of Senator Claude Pepper when he first ran for the Senate.

I have told Senator Pepper many times that my mother keeps saying she just does not need any more Social Security. She has enough to support herself. This does not mean the same is true for all elderly persons. So I do not think there is any black and white in the issue you raise, Mr. Lowry. There are ways, and I think, this includes all the programs that is the wisdom of 535 elected representatives, you ought to be able to disciminate between the programs so that you can do what is necessary for the people who need help, and still try to protect the National Treasury.

Mr. LOWRY. So you do not want an across-the-board freeze in Social Security?

Mr. **Emmer**. Well, let me just say this. What I want is something better than what we have been able to produce in legislation. What I really do not want is a $200 billion deficit.

What I would like, in fact, every year is a measure of surplus, so that we ultimately eliminate this $2 trillion monster that is mortgaging our grandchildren as well as their grandchildren.

In my hometown we have subsidized busfares for citizens over 55 years of age. My mother does not need to have those benefits and, therefore, I think it takes some careful discrimination to see that the lower income needy people are served by what taxes the rest of us pay. Some of these across-the-board COLA increases border on the ridiculous.

We talk about the military, and L.K. Cannon, a good friend of mine who testified earlier, defended the COLA's for the retired military. On the other hand, there are many retirees who have another job and other incomes and do not require these extras.

As Congressman Mack said before he left, the pie is only so big and as he suggested several times, if we want to add something, where do we remove something else. That is your judgment, when we send you to Washington.

In summary, what I am saying is that, I think, that the proper way is to mandate an across-the-board cut in COLA's, housing programs, defense, as well as anything else and, if necessary, increase taxes too. I am willing to see increased taxes so that we can get this budget deficit devil off our backs.

I am sorry I spoke so long, sir.

The **Chairman**. So you would be for increased revenues after you did strong cutting?

Mr. **Emmer**. Clearly, my paper said that and, that is the position of the NAHB.

The **Chairman**. Now, I want to just make this clear. I heard Mr. Demetree's response to Mr. Lowry, but I want to make sure that I heard yours. Yours is, if we can distinguish between the truly needy and those like your mother, that is fine.

Mr. **Emmer**. Right; yes, sir.

The **Chairman**. You would say do not hurt the truly needy——

Mr. **Emmer**. Yes, sir.

The **Chairman** [continuing]. But you would freeze the others, that is what you are saying?

Mr. **Emmer**. Yes, sir.

Mr. **Demetree**. Mr. Chairman, may I——

Mr. **MacKay**. We will get Mr. Demetree onboard before it is all over.

Mr. **Demetree**. May I respond to Representative Lowry because he took exactly what I said wrong. I said freeze it and you people decide. Stop the COLA's and each time you all sit down and discuss it and decide who needs it and who does not, exactly what Mr. Emmer said.

Mr. **Lowry**. That is not what a COLA freeze does.

Mr. **Demetree**. Well, let me say it this way, Congressman, that is what I meant. I said you people make the decisions. Do not sit down and just keep automatically doing it every year; freeze it and then sit down and say——

The **Chairman**. So you agree with Mr. Emmer——

Mr. **Demetree**. Yes.

The **Chairman** [continuing]. That if we can distingushed between those who are below the poverty line they should get the COLA and those that are above the poverty line can be frozen?

Mr. **Demetree**. Let us not use the word COLA. They should get an increase based on what you think their needs are. It might be well above the COLA, but decide and look at it realistically and do not say it is an automatic 3 percent because inflation was 3 percent.

The **Chairman**. OK; that is what I mean. The impression we got from your answer was something different.

Mr. **Demetree**. I am sorry.

The **Chairman**. You see, when you say to us, freeze the COLA, in our parlance that means nobody gets anything. Therefore, when you use that phrase around Members of Congress they are going to think you mean do not make any distinctions whatsoever.

No one gets it, whether it is a person who is on the tennis court and belongs to the country club and receives a $100,000 income or the little lady living in Dade Country who is locked up in poverty. She has $6,000 a year income and she is trying to survive in Dade County. I mean, nobody can, and she is in deep trouble.

Let me just say to Mr. Davis before we dismiss the panel, it is good to see a rattler.

Mr. **Demetree**. By the way, I am born and reared right here. I want you to know I have watched rattlers all my life.

The **Chairman**. Mr. Davis, I just want to say to you, I did not ask you any questions because, I think, clearly Congress has stated over and over again for the last 4 years that vocational education is a priority. It does not agree with the administration's levels of reductions.

In fact, in vocational education last year, we basically gave the program a slight increase because we feel education is a major part of the strength of this Nation. What makes us great is the fact that we provide education to everybody, regardless of whether they are rich or poor. It does not matter where you come from, and they have a chance to climb up. Education is a part of it and so we were not neglecting you, Mr. Davis

Mr. **Davis**. Right.

The **Chairman**. Thank you, gentlemen, very much, for your specific testimony.

Mr. **French**. I would like to say, gentlemen, it is tremendously reassuring to hear the statements that you all have made. I feel so good about the reflection of knowledge and understanding that this committee reflects. It says to me that democracy is working and we can govern ourselves, including dealing with the deficit issue.

The **Chairman**. Well, thank you very much, Mr. French.

Now we shall call the next panel on crime, drug interdiction: Charlie Dean, president, Florida Sheriffs Association; Bob Ensslin, adjutant general, Florida National Guard. I hope, General, I pronounced that name correctly.

Mr. **Ensslin**. That is right.

The **Chairman**. And Robert Dempsey, commissioner, Florida Department of Law Enforcement.

We welcome you, gentlemen, and we would hope, since we are now 1½ hour behind schedule, that you would basically take a couple of minutes and present your important points.

Your testimony is going to go into the record, and if you do not have a detailed written statement and you want to expand on it, as long as Congressman MacKay gets it in 10 days, it will be put into the official record as if it were delivered in its entirety here before the committee.

Congressman MacKay wishes to say a word about this panel before we begin.

Mr. **MacKay**. I just want to say, Mr. Chairman, through staff, I have talked to these gentlemen and said to them, "Tell us if there is a way the Federal Government can help you do better on less money." I think they can and I think they will.

STATEMENT OF ROBERT R. DEMPSEY, COMMMISSIONER, FLORIDA DEPARTMENT OF LAW ENFORCEMENT

Mr. **Dempsey**. Thank you, Mr. Chairman.

My name is Robert Dempsey, and I am commissioner of the Florida Department of Law Enforcement.

In deference to this committee and its time, with a great deal of frustration, I will submit a statement and be ready to take any questions that you may ask.

I will say this, the drug situation is in a very bad state of affairs, as you well know. I shiver when I hear the concept of cutting across the board if that means cutting the drug fighting effort, because we are in a war, gentlemen, that is costing lives in this country, more than any military action we have ever been involved in, and, I think, we have got to pay deference to that, but I would like to make just one simple analogy.

If you have got a series of problems that you can cut some support in the area of 10 percent but one problem is going to die altogether if you cut it, then, I think, you are making a serious mistake when you say, cut across the board, meaning cut the fight and the war on drugs and drug problems.

I will rest on that statement and will be happy to take any questions.

[The prepared statement of Mr. Dempsey follows:]

Prepared Statement of Robert R. Dempsey

I am pleased to participate today in this panel regarding the continuing illegal drug problem and proposed budget cuts to federal response agencies. I plan to briefly express several observations from my state level perspective. Sheriff Dean is providing additional perspective from a local law enforcement view.

The influx and consumption of illegal drugs has been a foremost problem in Florida over the past two decades. Its many threats to, and the untold price drugs have extracted from, our society and institutions have been the subject of much rhetoric and action. With the realization that demand reduction programs are critical but long range, we in law enforcement have been busy attacking the supply and distribution network—busy to the point of being continually over-taxed.

We at state and local levels have long known that the problem was much larger than we could handle alone. The intensely alluring profit and the national/international movement has defied our capability to resolve the problem thus far; however, we are committed to the belief that with a strong, continuous and united effort on both the supply and demand sides, we can succeed in overcoming this problem.

In earlier testimony, I have likened the drug trafficking apparatus to an inverted funnel, the small apex representing the source country or entry point of illegal drugs. From this entry, as the funnel extends wider and wider, drugs are shipped to the United States; next, distributed wholesale and ultimately reach the funnel's outer lip or retail level. As the funnel becomes wider and wider, drug supplies become more dispersed, more damaging and more expensive to counteract.

It is obvious that federal intervention is exclusively necessary from the apex, or source country production, through eradication at source and interdiction at our borders. While recognizing the federal investigative and prosecutive roles in interstate trafficking, I confine my remarks today to this pre-border and border area.

Over the past year, I perceive that more progress than in previous years has been made both in multi-national enforcement/eradication efforts, and in attacking drug aircraft and vessel incursions. I have seen instances of good local/state/federal interdiction operations in and near Florida during this same period. I have seen personal and professional commitment of Admiral Cueroni (NNBIS) in striving to more closely coordinate these operations. I have seen greatly improved international cooperation, and I know that these efforts have posed additional and troublesome obstacles to major drug traffickers who would enter our state and nation.

But I have also felt continued frustration when I still see drug-laden vessels and aircraft infiltrating our state undetected—when I see, during time periods between the successful concentrated interdiction exercises, a lack of sustained defenses—when I still perceive the restricted employment of military detection capabilities which are so sorely needed in this war we are waging. Indeed, this is a war that is having disastrous effects on our nation. Everyday we read of death and debilitation in our society caused by illegal drug use. Yet we have not fully mobilized our resources. Recently I read about the reluctance of our air force to make a serious commitment to the drug fight. Allegedly its concern was for maintaining a state of readiness to respond to military action, or in short, a war. Gentlemen, I repeat—we are at war! We are losing thousands of lives annually to illegal drugs; few, if any, to hostile military action. It is time to curtail the rhetoric and to bring our massive resources to bear on this problem Today!

Most federal agenices, particularly the United States Coast Guard and United States Customs Service, have been more active. Some military assistance has increased, but still much more is needed. More drugs have hit our shores and streets than ever before.

The major interdiction agencies, the United States Coast Guard and United States Customs Service, are now facing potential budget cuts. The increased visibility and improved interagency attitudes are thereby in jeopardy. This is a tragic state of affairs. The recognition of federal responsibility in and around Florida, as well as other coastal states which are import points, must be backed up with appropriate funding commitments. We do not need to follow a significant forward step, that has taken several years to develop, with a quick step backwards at this crucial time. Increasing levels of serious crime in our communities exist. Many Florida law enforcement administrators attribute at least 50 percent or higher of this crime to the drug problem.

Federal funding which has supported improved counter drug efforts must not only be maintained, but increased. More multi-agency operations like "Blue Lightning" must be engaged. More commitment of military support to iterdiction efforts and to protection of our shores must be made available. Greater support to local and state participants is important, examples of which are noted by Sheriff Dean.

Again, I must observe that the most responsible, effective and economically sound approach on the supply side is to halt both drug production and pre-border trafficking. Once in our country, there is no doubt that the resources required to deal with the street crime and other human deprivation and degradation far exceeds the budget required for pre-border eradication and interdiction efforts. For every dollar spent there, I believe that many more dollars and intangible costs are saved by the reduction of drugs reaching our streets.

There is a real need to improve and expand federal initiatives, some of which we have seen undertaken over the recent year. Society's response to many other pressing problems will continue to be overshadowed and shortchanged until the drug problem is minimized.

I cannot support budget cuts of primary interdiction agencies which will certainly increase Florida's already overwhelming drug problem. We need more bilateral and multilateral drug operations. We need greater efforts to halt airborne and seaborne incursions. We need more consistent, ongoing and earlier radar detection of these craft. And we need to raise, not lessen, the risk of supplying illegal drugs to this country.

I appreciate the opportunity to participate in this discussion today, and now avail myself to any questions.

The **Chairman**. Charlie Dean, president of the Florida Sheriff's Association.

STATEMENT OF CHARLIE DEAN, SHERIFF OF CITRUS COUNTY, FL, AND PRESIDENT, FLORIDA SHERIFF'S ASSOCIATION

Mr. **Dean**. Mr. Chairman, it is a pleasure to be here. I, too, do not have a prepared statement, but my Congressman contacted me just a couple of days ago to be here and testify.

I am the newly elected president of the Florida Sheriff's Association and I am sheriff of Citrus County. I join with Commissioner Dempsey in urging you to continue the battle against illict drugs in the State of Florida.

First I would like to draw your attention, though, to a couple of areas of Government that I feel very strongly about and I feel that you should address in your budget request inquiry.

The first thing is the GAO. In the General Accounting Office, almost every time your Federal agents seize through the interdiction program that you established here in the State of Florida, boats and the aircraft that are seized usually end up aboard an Air Force base such as down in Homestead or in some marina collecting rust. I realize this makes a good show for the task force that has come to Florida on the interdiction program.

Now, some of those folks who came down here did a good job with the interdiction program. Then, there were some of those folks that we don't feel like, or I don't feel like did very much. When some of these people arrived they did not know where they were going and had to go to the local officials to find out who the bad guys were.

Many local sheriffs and chiefs of police in many communities as I have stated do not have equipment such as boats and aircraft, yet they provide the first line of defense on the coastal zones of the United States. I would suggest your support for all the agencies involved in our drug interdiction efforts. In my particular case, my No. 1 ally is the Coast Guard. Recently, I read in the newspapers that the Coast Guard is going through possible budget cuts this year. Instead of cutting back the Coast Guard's budget I wish you could see fit to give our local unit on the west coast above St. Petersburg, two or three more 41-footers equipped with radar and the added manpower to improve our interdiction program.

Mr. Dempsey I feel is doing everything he can do for the local government effort through the Florida Department of Law Enforcement, and I know we have done everything we can do. But sometimes I feel like I have been fighting elephants with a flyswatter.

I appreciate you allowing us to appear before this committee today and I appreicate your concern for our efforts.

Thank you.

The **Chairman**. That is very pointed. Thank you.

Mr. **MacKay**. It sure is.

The **Chairman**. General Ensslin.

STATEMENT OF GEN. BOB ENSSLIN, ADJUTANT GENERAL, FLORIDA NATIONAL GUARD

General ENSSLIN. I was not here for Governor Graham's testimony earlier, but I heard Governor Graham last Thursday in Washington when he spoke to Congressman English's subcommittee, at which time he made a very strong statement that I wholeheartedly endorse, and I trust that he said some of the same things to you a little earlier.

Basically, securing our borders is a national security issue, and I think it has got to be looked upon as a national security issue. The National Guard is a national security asset which has enjoyed really only a limited role in the drug interdiction battle. One of the reasons for this is the limitations on the funding that is provided to us.

Of our funding, 95 percent comes from the Federal Government and it is to prepare ourselves for our mobilization mission. Those funds are allocated and tied to that kind of activity. They are not available to us to use to work with Commissioner Dempsey or to support his activities.

The 5 percent of our budget that is provided by the State of Florida has no allocation in it for activities in support of FDLE or the sheriffs around the State of Florida. The only exception is when the Governor declares a state of emergency and is able to draw on the emergency fund that he has available for State emergencies, such as hurricanes, tornados, refugee influxes, and so forth. We feel that the capability of the military, especially the National Guard, to assist in this arena has been demonstrated.

Within recent weeks we have participated with Commissioner Dempsey's FDLE and the Georgia Bureau of Investigation and the Georgia Air Guard in what we consider to be a successful interdiction effort, the kind of effort that if it were in place all the time we would make a great improvement in the ability that we have to secure our borders and to interdict.

We have a memorandum of understanding with the Florida Department of Law Enforcement. They train our helicopter pilots in the detection of domestic cultivation. They are able to ride on our aircraft in conjunction with training missions that are already scheduled and occasionally when the State can provide funding, they can do it in a State active duty realm.

Congressman English's committee and the Congress were interested in the establishment of a special operations wing of the Air Reserve Forces to operate in this area. It was in the authorization bill, it was in the appropriations bill.

Apparently the Defense Department is planting their heels and saying that in their opinion this is not a good idea, not a worthwhile effort. In my opinion, the viability of that concept has been demonstrated by FDLE and the Georgia Air National Guard. We would like to see that asset in place as part of the Florida Air National Guard to assist in surveilling the tremendous coastline of the State of Florida.

We feel that it would be appropriate to grant permission to our units to assist law enforcement agencies when that assistance parallels the mobilization mission of our units. In other words, if it enhances our training and our ability to mobilize and perform the Federal mission, then why not let those assets be used in support of this extremely important effort?

You know, the military spends its time preparing for war in order to deter that war, to keep us at peace. As Commissioner Dempsey pointed out, we are already in a war against drugs and we are losing the war and that can erode the fabric of our society and make some of our other programs meaningless because of what it can do to the very fabric of our society.

I think it is imperative. I think that the resources, the technology and the capability exist, but from my viewpoint there is not a national commitment to engage in this battle, to utilize the resources available and win it.

It has been our experience that our times of State active duty and working for the State of Florida have enhanced our ability to mobilize and perform our Federal mission and we feel that there is more that can be done in this arena, and I think it is imperative that we approach it.

The CHAIRMAN. Thank you very much, General.

The gentleman from Florida, Mr. MacKay.

Mr. MACKAY. Well, I apologize to you all because we are running so late. I intend to pursue the idea of seeing if some way, through statutory language, we can make it clear that it is part of the role of the Florida National Guard to be of assistance to the FDLE and the sheriffs.

Sheriff Dean knows the frustration we have had in trying to break loose this business of GSA impounding the booty, not sharing it with the local law enforcement, and then wondering why the local law enforcement is not always motivated to help them, and I hope that Glenn English and others will keep on pushing that issue.

Mr. DEAN. I would like to say one thing, Congressman, in answer to the General about that.

I agree, I think there is a great deal of asset that can come about with the assistance of the military, including, as you say, the National Guard. I think there, again, and please address again what I said earlier, the fact that you folks know as much and have the input up there in decisionmaking about the cut on the Coast Guard. I have got to stand for those people. They are already there, they know their business, they have done a tremendous job for us, and I really hope that you touch on that.

Whatever you do, do not reduce in-place units that are on the coastal zones of the United States, particularly Southern United States, in Florida, Texas, Louisiana, this area down on the coast. Please make sure we do not lose those units in that area.

Another thing, we just had an in-place radar net program put on by Customs down in south Florida that they have a 17-county unit interface with the city of Miami and the local government there. They were able to take these radar balloons and detect the units coming in. How great an asset that would be for us to have just one of those units on the western coast of Florida, particularly in the gap above Tampa Bay all the way to Pensacola. That is your drug smugglers' alley; that is where they come because there is no radar there.

You know, that is where the planes come and play their games and fly under our net. So please consider that asset also.

I appreciate being here. One thing, again, do not forget the value of your local government units, your local sheriff, your local police chief, the people that are out there on the line every day doing this. We need your assistance, and it is good to have a lot of people come down and help us, but it is also kind of bad when they all went back home, too. We still have them coming. So I appreciate the fact that some of that money, if there is any left after all these other problems I have heard about today, local law enforcement needs assistance, too.

The CHAIRMAN. Thank you. Congressman Lowry.

Mr. LOWRY. Well, I think we agree with this panel. I mean, this is a great panel. Of course, the other panels were great, but I wish this one had been first. This is an important subject. Thank you. We are going to do something about the Coast Guard.

Mr. MACKAY. You do not have to worry about the Coast Guard.

The CHAIRMAN. Let me simply say, if you look at the budget that came out of the House and out of this committee last year, even though we made $56 billion in deficit reductions in expending cuts, one of the areas that we did not touch was this very vital area, and we totally disagree with the recommendations of the administration.

In fact, I think we gave an increase in these areas in our budget that came out of the House, because, let me tell you, sheriff, commissioner, general, it does not just simply affect you all in Florida. Come up to Philadelphia. I could show you where one of the stops is as they go on up. They may bring it in here in Florida, you may have a lot of traffic in Florida, but that is just on its way up the line into my district in Philadelphia.

Anything that this committee can do, I think you will find this committee will agree, whether you come from Seattle or Philadelphia or whether you are right here, like Buddy MacKay, your Congressman. You are going to see strong support, $34 billion in reductions for drug interdiction, and that kind of thing. It stopped them, and I am glad to hear your comments about what we need to do to reform the program and make it more effective.

Do not send people down here for a weekend and then take them out, send the resources to us and we will stop them. We got that loud and clear. Thank you very, very much, gentlemen.

Now the veterans panel: Simon Stover, director, Florida Division of Veterans' Affairs; Charles McLeod, Disabled American Veterans; and Michael Hahn, executive director, Florida Commission on Veterans' Affairs.

Gentlemen, we have a problem. The problem is I have a plane in 25 minutes from your airport; and yours is in 30 minutes?

Mr. LOWRY. Right.

The CHAIRMAN. We are going to have to leave, but Congressman MacKay will hear your testimony.

Mr. MACKAY. I am not much, but you got me.

The CHAIRMAN. Do not believe that. This guy is a real Congressman in Washington, DC. He is doing a heck of a job. I assure you that I will personally read your testimony because it will be a part of the record.

Mr. **Stover**. Mr. Chairman, on your way out, I feel it is very important to say that all of us here today would not be here were it not for the veterans of this country and those now serving on active duty. We will go on with the testimony.

The **Chairman**. My friend, I agree with you totally. I think you will see that reflected in the budget that we passed last year, but I would like to get your personal criticisms and suggestions about this year's budget.

Thank you very much.

Mr. **MacKay** [presiding]. I might say that I have seen veterans in this spot before, and I am sorry that it has worked out this way. Please begin Mr. Stover.

STATEMENT OF SIMON F. STOVER, DIRECTOR, FLORIDA DIVISION OF VETERANS' AFFAIRS

Mr. **Stover**. I am Simon F. Stover, the director of the Division of Veterans' Affairs for the State of Florida. As such, I am one of the Governor's representatives as an advocate of the 1.4 million veterans in the State. Actually, the last figure is 1,439,900 veterans.

As you are aware, sir, the veteran population is growing, as the rest of Florida is growing, and that is where our problem arises. I do not think that you will hear veterans, as a group, complain if there is a fair share reduction in anything across the board in the United States. Our problem in Florida exists because we are about 10 years behind in providing health care to the veterans in the State, adequate health care, equal access.

Both Mr. Hahn and Mr. McLeod will expound on this a little more than I in the interest of time. It is very disheartening, and I receive phone calls every day in the Division of Veterans' Affairs, from veterans who have gone back to Ohio, Michigan, the Northeast, wherever, and received non-service-connected elective surgery from the Veterans' Administration that is not available in the State of Florida.

The VA, through its meta-planning process, which I highly applaud as a theory of decentralized planning, has been unable to respond to the veterans' needs in the State. There have been some accomplishments and there are some that are planned, but it is not enough. It is too little too late, and any reductions in either construction or service budgets in the VA will severely task the veterans of this State more so than veterans in other States, and that I think is our main concern, sir.

I thank you very much for this opportunity, and I will be available for questions, Congressman MacKay, after the other testimony.

[The prepared statement of Mr. Stover follows:]

Prepared Statement of Simon F. Stover

Mr. Chairman and members of the committee, it is an honor for me to appear before you today to present my views of the Veterans Administration health care system in Florida.

The problems revolving around Veterans Administration health care in Florida are primarily centered with equal access for Florida veterans, as compared with the rest of the nation.

At the present time, the national average bed ratio is three beds per 1,000 veterans. Florida's ratio is a little over two beds per 1,000 veterans. This ratio will grow larger, as the in-migration problem continues.

More veterans are moving to Florida than to any other state in the nation. During the years 1975 through 1980, 135,998 veterans moved to Florida. Of more importance is the in-migration of older veterans (60 years old and older). This group of veterans require significantly more health care than other groups. From 1975 to 1980, Florida gained 73,492. The future is even more significant. Veterans Administration projections indicate that Florida will continue to outgrow the nation.

The Medical District Initiated Program Planning (MEDIPP) process has been instituted and must be supported. This grassroots planning program is based on the premise that local knowledge of demand, resource needs, and existing capabilities will result in more efficient services and better resource utilization that decisions based on planning, which is solely centrally directed.

A study entitled, "A Thirty Year Study of the Needs of Veterans in Florida," was directed by Congress and completed in 1982. A follow-up study entitled, "A Report in Future Bed Needs and Potential Sites for New VA Hospitals in Florida," was completed in 1983. Both studies project the health care needs of Florida veterans.

The medical district 12 MEDIPP process is to be recommended for its ability to identify and plan for the projected needs in Florida. This includes close cooperation and coordination with Medical District 10, which oversees the eight western most Panhandle counties. Some of the projections which the medical district has already planned for include the following: (1) a doubling of outpatient visits by 1995; (2) to increase community nursing home care by 536 (average daily census) by 1995; (3) increase VA nursing home beds by 1,320 by 1995; and (4) increase VA hospital beds from 2,800 to 5,000 by 1995.

It is noted that the Veterans Administration has been supportive in that major construction is under way at each of the existing five VAMC's in Florida. Additionally, the outpatient clinic in Daytona Beach just opened last month, and another in Pensacola is under construction. Florida received the majority of additional outpatient funding made available by the VA last year. Present construction priorities in the VA include: No. 7, 290 psychiatric beds at Gainesville—design fiscal year 1988, construction fiscal year 1989. No. 9 West Palm Beach hospital—fiscal year 1987, site selection; fiscal year 1988, design; and fiscal year 1990, construction.

Other projects in the list include the following: fiscal year 1988, 120 nursing home beds at Gainesville; fiscal year 1989, 120 nursing home beds at Lake City; and fiscal year 1990, 120 nursing home beds at Orlando.

All this is essential and commendable. However, *any* budget reductions in either construction or service could leave the veterans in Florida in an even worse situation.

It is very disheartening to hear, daily, of veterans who now reside in Florida, telling me that they have gone back to Ohio, Michigan, New York, Pennsylvania, or the Northeast, in order to get non-service-connected elective surgery, because that option is not available in Florida.

Sound management of scarce resources is essential in all areas of government, and hard decisions must be made. Our recommendation is to apply those resources where the veterans are.

Thank you very much for allowing me the opportunity to appear before you today.

Mr. MacKay. As you know, I have been concerned about that question about certainly not only the overall level of veterans' funding but also the distribution. As long as we are going to hold everybody harmless in the States where the veterans are leaving from, there isn't anyway that they are going to have money down here in the States that they are coming to.

Mr. Stover. I hope it would not have been out of line, but had the chairman been here, I was going to ask him if he would be willing to close a wing of the Philadelphia VA Medical Center in order to have a reallocation of the existing assets or whatever assets are available later on.

Mr. MacKay. We will see to it that that issue is raised.

Mr. Stover. The problem is not management. I think that there are enough concerned people in the VA, that if the political realities could be thrown out, and that is an impossibility, I understand, but if they could be thrown out, they could manage the system with the existing funds or even less, sir.

Thank you.

STATEMENT OF H. MICHAEL HAHN, EXECUTIVE DIRECTOR, FLORIDA COMMISSION ON VETERANS' AFFAIRS

Mr. HAHN. For the record, my name is Michael Hahn, and I am the executive director of the Florida Commission on Veterans' Affairs.

As an initial statement, I would like to state that the three of us presenting information here today don't always agree on everything. Occasionally we have all taken our own little roads to where we are at this point.

It is a matter of coincidence that we all happen to be in full agreement that Florida is being shortchanged by substantial, very substantial amounts of VA health care.

We can look for comparisons to try to illustrate this point. We can look to the Chicago area, for example, which I understand the committee has already visited. In the Chicago area, discounting exams for medical treatment, pension and compensation, the Chicago outpatient clinics treat 13 percent of the people they see for service-connected disabilities. In the same circumstances, in the entire State of Florida, 61 percent of all veterans treated are being treated for service-connected problems.

We don't have a greater percentage of veterans with service-connected disabilities. What you see there in these statistics is a reflection of a very critical shortage of facilities and an agency, I might say, which is very hesitant to address this circumstance.

I think in part that is due to subsection 211(a) of title 38, United States Code, which puts the administrator beyond the review of any court or jurisdiction in the land. I think that is really central to what we are here to talk about today.

Mr. MACKAY. I had not thought about the interplay that the idea of——

Mr. HAHN. Oh, yes, sir.

Mr. MACKAY [continuing]. Giving the gentleman the right to sue might be the way to straighten this thing out.

Mr. HAHN. Well, as you may be aware, Congressman, we, the commission, did approach the State's attorney seeking legal assistance in a suit, a proposed suit, against the Veterans' Administration, to force them to reallocate resources and facilities to the State of Florida.

It was the State's attorney's opinion, after about a 3-month research project, that a suit of this sort, while there was an actionable cause, while he would not debate in any way the need for such a suit, they were not willing to make the suit go forward because, though they would lose, they were not at all willing to be accused of spurious litigation. That, I think, is a very bad circumstance.

When you look to 211(a) and say, Well, fine, at the time of the Civil War when that was originated to protect veterans against unscrupulous lawyers and others, it made a certain degree of sense, but when a State that is in such a dynamic circumstance as Florida, is unable to litigate a question of this significance against the largest independent Federal agency in existence, something is dead wrong.

Now, I think that needs to be addressed, and I think it is also going to be an unpopular issue in the Congress because everybody is going to understand the meaning of all of this, and they are going to——

Mr. MACKAY. Which is why it needs to be addressed in the courts.

Mr. HAHN. The same as Representative Mica's bill to reallocate resources on the basis of known demography of veteran residence. The Congress is not willing to address that effort. This is a very, very frustrating circumstance.

As Mr. Stover alluded to a short while ago, the most common question we hear from the service officers is, "What am I supposed to say to new veteran residents in the State of Florida when they ask, why won't the VA treat them here when they have been treated for years and years up North."

Mr. MACKAY. I would like to pursue that. There is a public interest law firm in Gainesville which is very, very good, and I would like to talk to them. There are situations, and I am certainly not a constitutional law expert, but there are situations where the equal protection of the law can override that statute.

Mr. HAHN. Well, there is another angle. There is some precedent; initially I thought that this might be a parens patriae case. The State's attorney agreed with some research that the commission did that that wasn't going to work, that the Federal Government can always come up and say that we have ultimate parens patriae, you have no argument against us.

There are some exceptions to that involving where the State has a vested finanicial interest, an interest in the health and well-being of the residents. There are some angles that can be pursued but they are by no means a sure winner. It would take quite an outlay, I would suspect, from whatever group might want to undertake it. I can assure you that I would be most happy to help in any instance.

[The prepared statement of Mr. Hahn follows:]

PREPARED STATEMENT OF H. MICHAEL HAHN

Good Afternoon: I appreciate this opportunity to address today's hearings in regard to Florida's plight as far as Veterans Administration health care and the Gramm-Rudman Amendment are concerned. Florida is a State which more and more finds itself at the "cutting edge" of social policy. My discussion today of VA health care is no exception to this rule.

Apparently, Florida's resident military veterans are not "first class citizens." Why, would I say such a thing? It's simple, just look at how they are denied access to the largest health care delivery system in the world—the Veterans Administration system of health care facilities.

During the same period of time which medical costs have risen to unprecedented highs, Florida's veterans have become less able to count on health care provided by the VA than any military veterans in the United States. And, what type of help means more, when really needed, than health care? Veterans in our State can't count on VA health care like those who live in other parts of the nation. That is why I suspect Florida's resident military veterans must no longer be valued members of our society. A few examples will illustrate my point.

In the Chicago area, excluding examinations for compensation, pension, and health care, 13 of every 100 veterans who receive outpatient health care services from the VA do so for service connected injuries or illnesses. In Florida, under the same circumstances, 61 out of every 100 veterans are treated for conditions directly attributable to their military service. This difference is not the result of Florida's population having been injured more often while in the military, but rather a function of too few facilities and resources in the State to help our many veterans.

The Florida Commission on Veterans' Affairs has determined that one-half of the veterans denied health care by the VA in this State would receive that care elsewhere in the nation.

Another comparison. According to published VA figures, Florida only has two-thirds of the national average number of VA hospital beds per 1,000 veteran population. If Florida were to receive its "fair share" of VAMC facilities, the construction of an additional 1,600 bed capacity in the State would be required. This would probably amount to another 3 hospitals—simply to achieve the national average.

What if Florida demanded equal access to VAMC facilities as, say, Alabama, or Massachusetts? For Florida to enjoy equal access to VA hospital care as Massachusetts, would require the construction of 3,459 more hospital beds in the State. Or, 4,690 more hospital beds would be required to equal the level of VA hospital facilities now in place in Alabama.

In other areas, such as VA psychiatric care, Florida also trails the nation. Florida is the only State in the nation where the VA hasn't already placed a long-term psychiatric care facility. This sad fact is really quite curious, as the most common diagnosis at the VAMC's in Florida is that of psychosis.

Overall, in the most conservative terms possible, the Florida Commission on Veterans' Affairs estimates an underprovision of VA health care amounting to not less than $150,000,000 in services each year in this State. Florida isn't getting a fair deal in terms of VA health care.

Nationally it may not be uncommon for a certain degree of variation to exist in levels of services provided by an agency as large as the Veterans Administration. But, just as apparent is that no single state should bear the distinction of being at the bottom of every available indexing of such important resources. Florida now bears that distinction and has for some time.

The other interesting thing about Florida is that it is the fastest growing population of military veterans in the nation. This was true throughout the 1970's, as the State's population of military veterans grew by 43%. Florida is the only major state in the nation the VA projects to continue to experience growth in its military veterans. Those states referred to before are losing veterans in their areas as their residents reach retirement age and move to, Florida.

One of the most common complaints heard by veterans' service officers in Florida is made by our new resident veterans: Why won't the VA treat me here when they treated me for years while I lived up north? How are we expected to answer that question?

Most Americans understand that changes must be made in the conduct of our government in order to balance our budget. Most certainly our State has many persons who could benefit by an even healthier economy. But, at the same time we ponder the problems of balancing the budget, shouldn't we also concern ourselves with balancing services offered by federal agencies? After all, veterans earn their entitlements in an equal fashion—don't they deserve to be treated equally as civilians? Clearly that is not case in Florida!

As we all anticipate the effects of Gramm-Rudman one thing seems evident; cuts in Veterans Administration programs are almost a certainty. However, across-the-board cuts of programs such as VA construction projects, for example, will not impact all areas of the nation equally. For the reasons I have stated, Florida would suffer in much greater degree in that type of environment.

Finally, it is also important to remember that Florida's veterans not only earned their access to VA health care in equal fashion, they also pay taxes now on an equal scale to support the federal government, including the Veterans Administration. Not only are they being shortchanged by virtue of their past service in the Armed Forces but also in their present payment of taxes each year.

Thank you for receiving these remarks today. I sincerely hope they will have some influence in your future deliberations.

Thank you very much!

Mr. MACKAY. That might be worth a whole lot to you. It might be interesting to pursue. Mr. McLeod.

STATEMENT OF CHARLES M. McLEOD, NATIONAL SERVICE OFFICER, DISABLED AMERICAN VETERANS

Mr. McLEOD. Mr. Chairman, for the record, I am Charles McLeod, the supervising national service officer for the Disabled American Veterans in the State of Florida. I must say that I was quite surprised when I found out that the committee was coming to the State of Florida to hold hearings regarding the impact of Gramm-Rudman and also considering some of the impact that we may have from the proposed 1987 fiscal year budget.

To start off with, Mr. Chairman, I have submitted a copy of my written remarks for the record, so I will not cover any of the material covered in those written remarks. There are a couple of things that I would like to discuss with you at this time.

I was able to get here quite early today and I caught Governor Graham's comments when he was testifying before this committee, and I caught the comments of every panel that came up for the purposes of making comments until now. I think the one theme that came through the entire session this afternoon was the fact that everybody agreed that we can live with certain cuts in our programs but a couple of things have to happen.

One, you and the Congress will have to take a serious look at those individual cuts and pick the ones that are called gravy programs, and there are turkey programs that were referred to earlier today or the old pork barrel politics types of programs and let us get rid of those. Then, with the money saved in those, we can handle reduced benefit levels in some of our other programs.

I was very surprised by the lady from the Council on Senior Citizens when she said that she would feel good about a tax on Social Security benefits. I thought that was extremely courageous, considering her constituency.

Mr. MACKAY. That was a very courageous position to take.

Mr. McLEOD. Right; that would be like my proposing to do away with veterans' benefits when I am an advocate of the veteran.

Mr. Chairman, I work day in and day out with veterans; that is my job. I represent veterans before Federal agencies, including Social Security, the Veterans' Administration, I take veterans and bring them in and sit them down and try to work their problems out for them and try to intercede between them and the agencies that are there to provide for them.

As we all know, the purpose of an agency, no matter whether it is expressed in legal terms or regulatory terms or just in the fact that it assues a certain position, it does not always follow what we feel it should be doing in that.

Right now we have cuts being imposed on disabled veterans by Gramm-Rudman effective March 1. We have all heard numbers about decreases in the payments for educational benefits.

We have heard that there is a 13.1-percent reduction in the payments to disabled veterans who are retraining under vocational rehabilitation because of their handicaps, and we have heard there is a 9.1-percent reduction in the educational program under chapter 34 and chapter 35, which is your normal veterans' readjustment benefits and the benefits available to the spouses and children of either totally disabled veterans or deceased veterans who died from service-incurred disabilities.

I first heard the news last week on the difference between the cuts imposed upon the chapter 31 vocational rehabilitation people and the cuts being imposed upon the chapter 35 and chapter 34 people, and I have a serious question in my own mind as to how we could justify that.

No. 1, right now, the service-connected disabled veteran who has to be retrained because of service-incurred disability so he can become employable is already drawing less monetary benefits than the guy who is going to school under 34 or in some cases the person going to school under 35, who may simply be a dependent. Yet the justification that I heard explained to me, well, if the guy is entitled to 31, he is already drawing compensation benefits.

Well, it is kind of like you are going to lose on both sides of the coin here. They are saying, first off, well, these service-incurred disabilities that you got in military service, because of military service they keep you from going out and getting a job, so we are going to retrain you, but since we are retraining you, we are going to pay you less money to start with than we pay the guy who does not have a disability who can work a part-time job and maybe even have full-time employment while he is going to school, but in your case we are going to reduce you.

Now, we come back and say, since you are drawing compensation anyway, we are going to cut you 13.1 percent and we will cut everybody else 9.1 percent. So, you know, you really have a difficult time, in a supposedly logical mind, justifying the relationship. I guess somewhere in the administration and the processes that take place in some of the bureaucracies within the VA there may be a reason behind it, but I have not yet figured it out.

Mr. MacKay. Let me stop you just a minute.

Mr. McLeod. Yes, sir.

Mr. MacKay. Would those be the administrative decisions that have been made or did we do this idiocy by statute?

Mr. McLeod. These are administrative decisions, from what I understand. I was involved in a conversation with a person from the vocational rehabilitation section who indicated to me that he expressed concern to the director of the educational programs there about his agency taking a 13.1-percent cut, and the basic answer he got back was, "Well, we are dealing with a lot less people here, so we can afford to cut 13.1 percent there than we are with all these chapter 34 and 35 people."

Mr. MacKay. Well, we can follow up on that and that might be a very good one to follow up on.

Mr. McLeod. Right; as to the administrative part of it, I really am not in a position to quarrel with the agency's right to reduce benefit levels to meet the funds that they have available to them. I have a serious question, though, when those decisions are being made by people who are so far removed from the people in the field who are getting these services that they have completely lost sight of what the agency is there for.

They have no earthly idea what their job is, other than the fact that they administer 200 VA offices around the country with 500,000 employees, and they forget that right down here in the

State of Florida there are 1.4 million veterans down here who are the sole purpose for Veterans' Administration's existence, either the hospital or the regional office or any other type identity they could assume. They forget about that little guy down here.

I think that if we look across some of the other proposals they came in with, and I listened to the gentleman from the Home Builders Association and the gentleman representing the Florida Mortgage Bankers Association, and I know why they were up here raising heck about the fact that you are cutting VA mortgages, along with putting on user fees, because it is directly impacting on them.

I know that is why they were here, but then I turn right around and listen to some of the things that they said about it; the guy from the Mortgage Bankers Association bought his first cracker box, as he called it, through a VA home loan program.

I bought my first house through a VA home loan program. I know for a fact that if I had not had my VA entitlement I never would have bought the first one. I could not get up the money that was necessary in the commercial market to make a downpayment even though I could have made the payments on the whole thing.

We see this time and time again, and I hear the VA saying that we are losing money on our home loan program. We cannot afford to do that anymore, it is costing us money. Well, at the same time, I look at this guy from the Home Builders Association, thinking to himself; if they knock off the VA program we cannot get refinancing or cannot get VA mortgages or Fannie Mae or any of this other stuff and I am going to have to let 50 percent of my people go. So, where do they go to? If he cannot build the houses, who else is going to build them?

Mr. **MacKay**. That is really true.

Mr. **McLeod**. It is just not going to happen. What we will end up doing is getting in a situation that we were in a few years ago, where there were no jobs. The Federal budget was being depleted by trying to pay extended unemployment program benefits and then extending them again and extending them again because nobody could get work and then, finally, things started turning around.

Well, I think the big thing is, and I look back to 1982 and the House Committee on Veterans' Affairs, Subcommittee on Medical Care and Hospitals held hearings on H.R. 6401, and if I remember correctly, you were very instrumental in H.R. 6401 coming up for consideration. That was a bill that would have required the Administrator of Veterans' Affairs to consider the actual number of veterans residing in each State when he was acquiring or operating medical care facilities.

Our then deputy national legislative director, Charles E. Jolson, Jr., appeared before that committee in June 1982, and he gave the committee a substantial number of statistics showing that veterans were moving, that veterans no longer lived in Pennsylvania, Ohio, or New York but the money was still there to treat them.

Those people were now living in Florida, and that was in 1982. He was talking about how the national number of veterans in the national population between the year 1982 and the year 2000 would decline roughly 10 percent, based on the VA's own review of statistics. At the same time, the VA was saying that the veteran population in the State of Florida would go from 1.3 to 2.6 million, a 100-percent increase in that same timespan.

So, we knew at the time that these staticstics came out that they were not planning on making new veterans by making new wars or new conflicts that we can produce veterans with. The only possible way this change could come about is that the veterans who had been living up North were moving into Florida.

Yet, at the same time, the administration keeps telling us, well, there is no real need for us to shift money around, we cannot really afford to do that, we have to keep 300 hospital beds in the East Bronx because we need them there, even though the population when they built that 300-bed hospital may have been 100,000 and now it's down to 40,000. But they have still got a 300-bed hospital there.

Mr. MacKay. Nothing should ever close; that is part of God's law.

Mr. McLeod. It just keeps going.

The big thing is that if we look at across-the-board cuts and, honestly, from working with veterans today and my personal opinion on this, I do not think with very, very few exceptions that you will find any intelligent, logically thinking veteran who would come before this committee or stand up before any group in this country and say that he would not be able to nor willing to share in the cuts that had to be made. He would take that share of those cuts.

But, at the same time, and the same points made by everybody that has testified today, we want it to be across the board and we want it to be equal. But in order for Florida's veterans to be equal in across-the-board cuts, the VA first has to bring us up to the equal level with everybody else in the country. Once they do that, then we can absorb an across-the-board 5 or 10 percent or whatever they decide is necessary.

Until we get on a par with whatever State you want to pick, any reduction in funding for this area here, be it across the board at 10 percent, but when it gets down to Florida it is going to be a 20- or 30-percent reduction, because the guy that supposedly left New York 2 years ago has still got his money going up there, and the guy that leaves New York next year, his money stays in New York, and he is down here now getting his part of the little bit that is left over.

Mr. MacKay. I see the point you are making. We are thinking about across the board to mean that the VA budget would take the same hit as all other budgets. What you are concerned about is that across the board would be extended down and each State would get hit although the needs are very different.

Mr. McLeod. A couple of years ago we had a serious problem and, in fact, I had a chance to discuss it with you and some of your staff people at that time. The VA ordered a reduction in the funding in the department of veterans' benefits, these are the people who actually do the work on cases. And they would say, well, we had to reduce our employment level by *x* number of percent so you people down there in Florida, you are going to lose 55 positions based on this across-the-board cut.

At that time the point was made, now wait a minute, fellows, you are cutting us by this number yet when you compare the caseload per employee here to any place in the country you want to pick, we are doing a lot more right now with your people than anybody else. Yet you tell us we take the same amount of cut.

There is no consideration for efficiency in there; there is no consideration whatsoever about the productivity per employee compared to what was being done, and there was no consideration there for what was going to change.

What happened is that these people that were coming down here after these cuts came into effect were expecting the same type of service that they had gotten before. Well, No. 1, the money was not there to do it with, it had been cut across the board. And what little was left after the across-the-board cut, stayed where the person came from. Then, at the same time, he comes in here and starts demanding more services, so the pie gets sliced a little bit thinner.

Mr. MacKay. You know, actually, to complete the loop, within the last 3 weeks I have actually had a veteran tell me that he was moving back to North Carolina because he had to have health benefits available and he could not get them here.

Mr. McLeod. That's right. We hear that all the time. That is a common complaint that we have to answer, "Why can I get it in Fargo, ND, when I cannot get it in the Gainesville, VA, hospital?" and, you sit there like a dummy because you know the answer but what good does it do to tell him.

Mr. MacKay. Well, you helped me very much because you helped me put two or three of these issues together that I had been thinking of as separate when, in fact, they are all part of the same problem.

Mr. McLeod. Another point that was made today that I think we might address now, we had the senior citizens group here and the Clearinghouse on Human Services and some others, the Association of Retired Offices, and all these people. They were bringing up the fact that we have an older population here.

Well, going back years ago, Florida became the oldest veteran population in the entire Nation. We became that years ago and now the VA here, in this past April when I appeared before the House Committee on Veterans' Affairs of the Select Committee on Aging—in fact you sat in at that hearing that day—regarding the problems that the older veteran was having.

The VA testified that they were addressing the problems of the older veteran. And I am sitting in the audience saying, "Well, to me, if I wanted to address the problems of the older veteran, I would go where the older veterans are at." But I have not seen any older veterans' programs in the State of Florida.

You know the lady made the statement earlier today that the average age of people in Sarasota was 76 years of age. It does not get much older than that anywhere in the country, but there is no program to do it.

Now, Mike Hahn, when he was testifying a moment ago, touched on something I think is very important. I realize, and Mike and Smoky there all realize the fact that politics play a big part in any deicison we have to make. In my job politics plays a big part of it, in your job as a Representative, you have to represent the people in your district and their interests. That all falls across the line, but the thing that we are having a serious difficulty understanding is that people within the system that are supposedly our representatives as veterans are not in fact representing us as veterans.

We actually feel in a lot of cases that if anything our representatives are actually supporting the other side of the coin as a means of——

Mr. MacKay. They may not even be familiar with the nuances of this issue at all, so they say, "Well, we are supporting the Veterans' Committee, the Veterans' Committee is supporting the 49 States. I understand that Florida and Arizona are the two that are really caught in this."

Mr. McLeod. Well, the same thing holds true with the people that are in the administrative positions within these Federal agencies. I get the very distinct impression from them that quite often their loyalty in a lot of cases is with the administration itself and their purpose in being in positions of authority within the system is to support the system and not necessarily bring to the system's attention what our problems really are.

You know, we seem to be the ones you come down to and give the sermon to on what great things are going to be done for you, and then when they go back up they say, well, I sold them a bill of goods on that one, they are happy now that we are going to consider all of this, so we will just forget about it. And then we are right back where we were before.

[The prepared statement of Mr. McLeod follows:]

Prepared Statement of Charles M. McLeod

Mr. Chairman and distinguished members of the committee: On behalf of the 70,000 members of the Disabled American Veterans in the State of Florida, may I say that I deeply appreciate this opportunity to appear before this distinguished Committee and present our views on the impact that the Gramm-Rudman Balanced Budget Amendment has upon the service connected disabled veterans and his dependents in the State of Florida. In addition, I would like to discuss with you the impact that our ever increasing veteran population has on the delivery of health care and other V.A services in the State of Florida.

Mr. Chairman, Florida is an extremely unique State in that while the total number of veterans residing in the nation as a whole is decreasing at a somewhat rapid rate, the State of Florida has exactly the opposite problem, our veteran's population is increasing. Between 1975 and 1985, Florida had an increase of more than 23 percent in its total veteran population. As of March 31, 1985, 1,425,000 veterans were permanent residents of the State of Florida.

This 23 percent increase in the total number of veterans in this State has placed an extremely heavy burden upon the Veterans Administration health care facilities in this State, who are attempting to treat an ever expanding veteran population with funding that has not kept pace with this population growth and in some cases, has not kept pace with the impact that inflation has upon the health care dollar. In addition, the Department of Veterans Benefits, which administers compensation, pension, education and other direct benefit programs, is having a serious difficulty in providing timely responses to veterans' requests for additional benefits.

Mr. Chairman, the Gramm-Rudman Balanced Budget Amendment is now the law of the land and, as we all know, this amendment has forced substantial reductions in fundings for all types of programs which directly impact, not only upon veterans, but upon the population as a whole. Mr. Chairman, we recognize the fact that the Federal Government has to "tighten its belt" and live within its means however, at the same time, we feel that any reduction in funding levels should not be made "across the board" since there are obvious differences in the need for services between veterans residing in different parts of this country.

Gramm-Rudman does provide "protection" for certain veterans' programs such as compensation, pension and dependency indemnity compensation rates however, no protection has been afforded any of the auxiliary benefits which, in most cases, impact directly among our most seriously disabled veterans. Examples of these impacts are as follows:

(1) Grant payments made to seriously disabled veterans for special adaptive housing will be reduced by 7.9 percent effective March 1, 1986 from the current $35,500 grant to $32,660, which represents a reduction of $2,840 in the money which would be available to a seriously disabled veteran to purchase a home specially adapted to his needs.

(2) Grant payments for the automobile and adaptive equipment, which is available to certain seriously disabled service connected veterans, is also being reduced by 7.9 percent effective March 1, 1986. This reduction means that seriously disabled veterans who require certain adaptive equipment in order to safely operate their vehicles, are now being forced to pay for a certain portion of this adaptive equipment.

(3) Another program which has been reduced, which does directly impact upon the seriously disabled service connected veteran, is the reduction of the funding for the Veterans Administration Vocational Rehabilitation Program, under the provisions of Title 38, United States Code Chapter 31. Under current law, veterans who have demonstrated that their service connected disabilities preclude or interfere with their attempts to obtain or retain substantial gainful employment, are retrained through the Veterans Administration's Chapter 31 Program in order to make these individuals "employable" even with their handicaps. The funding for veterans who will be attending programs of education and/or training under the provisions of Chapter 31 are being reduced by a total of 13.1 percent effective March 1, 1986.

Mr. Chairman, we realize that some reductions are necessary in the programs in order to achieve a balanced budget within the federal system. However, we do have serious reservations as to whether or not this approach to the balanced budget is adding another "handicap" to the lives of service connected disabled veterans who have been forced to adjust to and to live with "handicaps" imposed upon them by their service connected disabilities. It appears as if the disabled veteran, who has already been asked to give substantially more to this country than the average citizen has, is being asked again to give even more.

Mr. Chairman, some additional provisions of Gramm-Rudman do impact upon all veterans and not just the seriously disabled. The changes proposed in the VA Home Loan Guaranty Program will impact upon the lives of service connected disabled veterans, non-service connected disabled veterans and veterans in general.

With the VA ceasing to honor requests for refinancing of VA guaranteed home loans, a veteran who purchased a home at a substantially higher interest rate a couple of years ago, now finds himself in the situation where he will not be able to refinance his VA guaranteed home loan through the Veterans Administration at a substantially lower rate. Veterans who had used the VA Home Loan Guaranty Program in the past and had either sold a home or transferred title and responsibility for the mortgage to another individual, have been laboring under the assumption that they would be able to re-establish their eligibility for VA home loan benefits when they were once again ready to purchase a home. However, effective March 1, 1986, these veterans will no longer be able to restore their entitlement or to use any partial entitlements which have not previously been used.

Mr. Chairman, yesterday I received a letter from a veteran who had heard about the Gramm-Rudman Balanced Budget Amendment and some of the curtailment in benefit programs which have come about because of this amendment. The veteran in question had been forced to sell a VA guaranteed home in 1978 because of a divorce. Following the sale of his property, he was able to reestablish his entitlement to a VA guaranteed home loan and had intended to use that entitlement in the future in order to purchase a home.

At the present time, the veteran is planning to be married in the early part of this year and had indicated that following his marriage, he intended to use his VA guaranty home loan entitlement to purchase a home for himself and his new bride.

Under the provisions of the Gramm-Rudman Balanced Budget Amendment, as now being implemented by the Veterans Administration, the veteran would not be able to use his VA guaranty home loan benefits, since they were previously used to purchase the home which was sold because of his divorce in 1978.

Mr. Chairman, I realize that the Gramm-Rudman Balanced Budget Amendment is going to have serious impact upon the Veterans Administration's Department of Medicine and Surgery and in order to obtain some information on exactly how these reductions would impact upon the 12th Medical District, which encompasses a majority of the State of Florida, I made contact with the Medical District Office a couple of days ago and asked some questions regarding how they intended to achieve the cost savings dictated by Gramm-Rudman. The information I received from the Medical District is that, at the present time, they had no idea as to how Gramm-Rudman would directly impact upon their ability to provide medical services to the veterans here in the State of Florida.

At the present time, it appears that Gramm-Rudman is too new for us to obtain detailed information as to exactly how these required reductions in funding levels will impact upon veterans and their dependents. However, I can assure you that Florida's increasing veteran population is going to actually magnify any reductions that are mandated under Gramm-Rudman and cause a substantially greater "reduction" in the delivery of services to veterans and their dependents in this State than it will in any other state in this country.

Mr. Chairman, I certainly appreciate this opportunity given to me to appear before you and the distinguished members of this Committee and I applaud you for your efforts to look into the impact that Gramm-Rudman is having upon the delivery of services by the Veterans Administration to veterans and their dependents in this State.

Thank you.

Mr. MacKay. I hope we can follow up on some of these things this year, and I will undertake to pursue this whole question of whether there is anybody out there that would be interested in undertaking litigation. Sometimes you can find somebody in the private sector that is better motivated, mainly because he is not overloaded and does not have budget constraints himself.

Mr. Hahn. That is the great irony of our time, we will probably have to find somebody who does big drug cases and needs the good positive public relations of it.

Mr. Stover. Congressman, I am concerned in this area too with the DRT Program system of allocation of funds. As a semimanagement expert, let me qualify myself in that area, it is self-defeating. Certainly in initial stages it encourages efficient and effective management of resources, there is no doubt about it. But when you measure performance against a national average on an annual basis, at some point you are going to reach zero.

Mr. MacKay. Yes.

Mr. Stover. And everybody in the system will be a loser rather than some winners and some losers for efficiency, because as we become more efficient that average is going to go down and it is going to continue to go down and you are just going to reach a point where no matter how good of a manager you are at a VA medical center you are not going to be able to meet the national average.

I do not know whether that is 1 year from now or 20 years from now, but we are going to reach zero under that system. I wish I had an answer for you real quick that you could use, but certainly there needs to be some allocation on production, no question about that.

Mr. MacKay. There are a number of us that are looking at that issue, not only from the veterans' standpoint but the whole question of the DRT system. It, like a lot of other things, has been sold with some beautiful rhetoric, but there are some very thought-provoking questions about where it is headed in the long run. All it is is a cost control mechanism. It is going to work short term and then——

Mr. Stover. As long as you put a cap on it, and I am certainly not for closing down a hospital that is now performing and making veterans have to drive, say, 400 miles to the nearest facility. But when you put a cap on it——

Mr. **MacKay**. That 1 percent is OK, I understand.

Mr. **Stover**. That 1 percent, even the winners are the ones who really lose, they are still losers because of the inflation on health care; 1 percent does not even keep them even.

Mr. **MacKay**. That is what is happening to Florida?

Mr. **Stover**. Yes, sir; we are getting further and further behind.

Mr. **MacKay**. Well, I apologize that I am the only one here, but I can tell you I am going to follow up and I am going to see to it that the chairman fulfills his commitment to read your testimony.

Mr. **Hahn**. I was just about to suggest that you perhaps have him direct some correspondence making some observation about what we say so we would know that he actually did do that.

Mr. **MacKay**. All right; I will do that. I like that. Thank you very much.

Mr. **Stover**. Thank you, sir.

Mr. **MacKay**. I thank everyone in the audience for participating. The hearing is adjourned.

[The following additional material was submitted for the record:]

FLORIDA DEPARTMENT OF AGRICULTURE & CONSUMER SERVICES,
Tallahassee, FL.

Hon. BILL GRAY,
Chairman, House Budget Committee,
214 House Annex I, Washington, DC.

Attention. Tallahassee Field Hearing.

DEAR CONGRESSMAN GRAY: This is to express my disappointment and regret that the agenda for your meeting in Florida today did not include agriculture. However, we in agriculture have great concern about the immediate and critical impact upon this vital segment of Florida. Since agriculture is not agendaed for your deliberations, I have taken the liberty to prepare in writing information for your perusal concerning the immediate effects of funding as well as some of the areas of projected concern.

Although Florida has an economic agricultural economy that has resisted the type of economic devastation we observe in some of our western or midwestern states, we do have a troubled farm sector. Fruit and vegetable receipts have been decreased in five of the last six years by weather and pest problems, the livestock sector has been hurt by years of low market prices, our row crop farmers have faced major financial problems and the entire agricultural sector has been stressed as never before. Those in agriculture have already sacrificed to the breaking point and should not bear more at this time. I am concerned that at this time of unparalleled strain on the agricultural system, that agriculture not be required to absorb a disproportionate amount of those budgetary reductions being implemented.

In addition to my aforementioned general comments, we face a more immediate crisis. Yesterday we were notified by the U.S. Department of Agriculture that they no longer will participate in the citrus canker eradication project. Our attempts to eradicate this dread disease of citrus in a joint federal/state eradication program were projected at a level of $34 million for our next fiscal year. The program was a 50/50 funded effort in eradication with both state and federal funds also allocated for financial assistance to those who had had plants destroyed as a result of the eradication effort. We now face a critical situation of not only eliminating all federal funds for the program, but with a threatened quarantine to the entire Florida fresh citrus market which totalled $400 million this past year.

During the past fiscal year, the state expended $6,789,142 for both the eradication program and financial assistance with a federal expenditure of $10,425,227 to be added to this for a total of $17,178,489. Currently, the state faces an additional obligation of $1.4 million for property destroyed as a result of the citrus canker program. The federal obligation for the same destroyed citrus plants is $8.8 million. From the notification we received yesterday, none of that $8.8 million will be paid and likewise no further funding will be made for the eradication effort.

Even more critical is their statement that if the State of Florida does not establish an adequate regulatory and control program including survey and certification of commercial groves and nurseries, fresh fruit will not be able to move out of the state after March 31; thus, destroying the $400 million fresh fruit market on which the economy of our state so heavily depends.

We have further been notified that critical reductions are faced in the federally funded portions of the brucellosis program, meat inspection program, food inspection contracts and pesticide enforcement grants. Florida ranks ninth in the country in beef cattle production, yet we currently face the threat of other states rejecting shipments of our cattle because of the incidence of brucellosis within portions of Florida. Total cutback in this area would severely impact our ability to retain the level of animal markets.

I contacted our entire Florida congressional delegation yesterday concerning this immediate crisis regarding citrus canker eradication funding. We appreciate your assistance in making certain that projected reductions and financial restrictions federally are appropriately diffused through all of government so that the tremendous economic vitality of Florida agriculture is not severely harmed.

With warm personal regards, I am

Sincerely,

DOYLE CONNER, *Commissioner.*

Attachment.

USDA advises of its pull out of entire citrus canker program unless funding problem resolved. Request your contact with White House and ask that funds from CCC or other appropriate sources be authorized immediately for continuance of this essential program.

DOYLE CONNER.

Mailgram sent to Florida Congressional Delegation on February 11, 1986.

To: The Florida Congressional Delegation.
For: The February 1986 Budget Hearing.
From: Patty DeTar, 1912 Sharon Road, Tallahassee, FL 32303.

Please make this letter part of the budget hearing process. These are my thoughts on the underlined topics:

1. Gramm-Rudman-Hollings

This budget approach is a cop-out by Congress and puts the responsibility for fiscal matters too much in the administrations jurisdiction and not in the lap of Congress where it belongs. Some budget items deserve to be deleted entirely and others increased to redress specific problems.

2. Medicare-Medicaid

This budget item should be increased but with better oversight to eliminate cheating. Increase funds for teen-age high school clinics and Medicaid funds for abortion and family planning. If every child is a "wanted" child, the prisons would eventually be emptied and that would save untold millions.

3. The IRS approach to savings

There should be no tax on interest on savings. This double taxation only discourages savings and promotes old-age poverty.

4. Marriage tax penalty

A husband and wife living on his single income do not get the same deduction as a couple living together without "benefit" of wedlock filing separate returns. Marriage is thus penalized. Also a wife's IRA yearly limit should be the same as that for her husband even if they are existing on his income alone.

5. Star Wars

Until recently I believed that research on laser weapons, super tanks, super helicopters, etc. was vital and worth our sacrifice and investment. However the fraud, cheating and inflated costs have so sickened me that I beg you to scrutinize this program carefully and weed out the suspicious elements. We don't want tanks that jeopardize our soldiers lives by allowing no escape. Incineration is for toxic wastes and not our soldiers. We also don't want multi-million dollar helicopters with cracked blades. Please examine each item carefully and leave in only the most promising ones but at the same time allow some basic research because this is where the real advances will be made. No wonder Gorbachev is no longer insisting that we abandon Star Wars. He knows it will bankrupt us before it threatens Russia. It is time we insisted on our money's worth from the weapons people. Instead we are given only fake demonstrations. If we're going to be best we have to be honest. Please weed out this mess when the budget is considered.

6. EPA

Please include more money for the enforcement arm of the EPA, the Superfund program, and immediate nationwide control of acid rain. The latter being the most urgent environmental problem of our times and getting more expensive to correct as we procrastinate in its solution.

7. Armed Forces

The Grenada expedition pointed up major failures in armed forces planning; i.e., communications systems that were incompatable, and sophisticated weapons marvels that were impractical in the field. Please listen to Barry Goldwater's plans for armed forces reorganization, and arm our country with practical weapons that work. Goldwater's plan would cut out the fat and insure efficiency while saving taxpayer's money.

FLORIDA STUDENT ASSOCIATION, INC.,
Tallahassee, FL.

STATEMENT OF POSITION PROPOSED REDUCTIONS IN FEDERAL FINANCIAL AID

Just over twenty years ago at Southwest Texas State University President Lyndon B. Johnson signed into law the Higher Education Act. The act established and coordinated Federal Student Aid programs designed to make higher education financially accessible to capable students. Because of the availability of federal financial aid, countless students have attended and graduated from colleges, universities, and vocational schools throughout the country. These students have gone on to improve themselves and the society that we all enjoy because they were given the opportunity to do so through higher education.

Unfortunately, recurring cuts in federal financial aid, the Gramm-Rudman-Hollings vehicle for deficit reduction, and the President's recent proposal to once again reduce the availability of financial aid, illustrate that education is no longer a priority of policy makers in Washington. Worse yet, it shows that our national leadership is content with making students pay a disproportionate share of the cost of our national debt. These same students have been hit year after year with major reductions in aid as well as soaring educational costs. In Florida, for example, a Board of Regents task force recently recommended that tuition be increased fifteen percent annually for four consecutive years (during a time in which inflation is less than four percent annually). One can easily see that vast numbers of otherwise qualified students will find it impossible to attend college.

Lower income students will not be the only people who are excluded from higher education because of these cuts. Middle income families will also be unable to send their children to college because of major reductions in "self help" programs such as College Work Study and the Guaranteed Student Loan, which are middle America's ticket to higher education.

On behalf of the 144,000 students of Florida's State University System, the Florida Student Association asks our Senators and Representatives to insure that we will not be faced with the proposed cuts in federal financial aid, that will make higher education a financial impossibility for so many students.

Simply stated, Washington's biggest paradox is the apparent belief that student aid can be cut in the interest of our country's future.

JOHN SOWINSKI, *Executive Director, FSA.*

UNITED FACULTY OF FLORIDA,
Tallahassee, FL.

PREPARED STATEMENT OF THE UNITED FACULTY OF FLORIDA PRESENTED ON ITS BEHALF BY PROF. JIM FENDRICH, CHAIR, POLITICAL ACTION COMMITTEE OF UFF

The United Faculty of Florida (UFF), which represents over 14,000 faculty in the State Universities, Community Colleges, Graduate Assistants and two private universities, strongly opposes President Reagan's budget cuts for higher education for 1986.

Federal support for higher education is not the cause of the mounting federal deficit. Discretionary spending for domestic programs has either remained flat or declined while deficits caused by defense spending, tax cuts to wealthy individuals and corporations, and payments on the national debt continue to mount.

The Reagan Administration's proposals are disastrous for higher education. The budget simply denies the American Dream for 1.4 million college students. The proposals would dismantle the federal role in higher education at a time when the United States still faces competition in educational advances from our friends and foes abroad.

Specifically UFF opposes in the strongest terms the following budget cuts for 1986:

1. The $2 billion cuts in student aid and the proposed restructuring of the Guaranteed Student Loan program.
2. Elimination of the New G.I. Bill which offers higher benefits for veterans.
3. Cutting graduate fellowships for students in the arts, humanities and social sciences.
4. Cuts of 7.8 percent in biomedical research.
5. The elimination of support for health professionals education and training programs that would significantly effect nursing schools.
6. The elimination of the State Student Incentive Grants which would deny $14 million in aid to Florida'ss college students most in financial need.
7. Cuts of $100 million in programs designed to encourage minority and disadvantaged students to attend college.
8. Cuts of 50 percent in vocational education—from $408 million to $210 million.
9. Cuts of $7.8 million in spending on construction of college facilities.
10. Cuts of $8.2 million for the National Endowment for the Humanities.
11. While UFF applauds the increased spending budgeted for research and development, we are concerned that a disproportionate amount of these funds are directed to the questionable "Star Wars" development.

In sum, Federal support for higher education is a very small but critically important part of funding for America's future. The way to reduce the Federal deficit is to attack its causes; not to wage war on higher education. The simplest ways to reduce the Federal budget deficits would be to impose an import tax on foreign oil and close some of the $120 billion tax breaks to large corporations.

FEBRUARY 4, 1986.

DEAR MEMBER OF CONGRESS: The Florida Association of Housing and Redevelopment Officials (FAHRO) and the Florida Community Development Association (FCDA) express our appreciation to you for being concerned enough about the housing and community development issues to take the time from your busy schedule to review the FAHRO/FCDA Legislative Position Paper—February 1986.

FAHRO is in its 46th year of service to the housing and community development agencies throughout our State of Florida, composed of 80 public housing authorities, 50 community development and planning agencies and 90 associate members.

FCDA was founded in 1977 and represents over eighty units of government throughout Florida including 28 Entitlement Cities, 33 Small Cities grantees, along with regional planning councils, and community development corporations.

Our organizations are united in their efforts to foster and promote the interest of low-rent housing, community development and urban redevelopment in Florida.

To provide a clearinghouse for exchange of ideas and experience toward a more complete understanding of the problems of low-rent housing, community development and urban redevelopment in Florida.

To recommend and promote State and Federal legislation which will provide in the most effective and professional manner decent, safe, sanitary housing and an affordable community living environment for all families based on sound economic development.

Sincerely,

JUANITA HOLLOWAY,
President, FAHRO Lakeland Housing Authority,
Lakeland, FL.

LEO FLORES,
President, FCDA HUD, Dade County,
Miami, FL.

Attachment.

Public/Assisted Housing Section

I. HOUSING BACKGROUND

A. Florida's public and assisted housing programs under the U.S. Department of Housing and Urban Development serve over 250,000 citizens in our State through 80 public housing agencies which are responsible for 90,000 housing units in Florida.

45,070 Public Housing Units
32,415 Section 8 Existing Units
4,663 Moderate Rehabilitation Units
8,049 Section 8 New Units

B. Public Housing has been an integral part of many Florida communities and cities since the passage of the 1937 Housing Act. Such housing has provided economic stability for millions of Florida families throughout the years and has weathered the storm of increased bureaucratic regulations and restrictions, while laboring through continued decreases in financial support.

C. Such public/assisted housing in Florida has been further strained without any additional Federal or State Housing Funds by:

1. Disproportionate burden of the nation's immigration policy causing major increases in very low income families.
2. Radical displacement of the nation's work force causing an exodus from the Northeast/Midwest industrial base to migrate to Florida seeking job opportunities while in an unemployed welfare environment.
3. Expanding tourist/service-oriented economy with traditionally low entry/minimum wage.

II. WHAT PUBLIC/ASSISTED HOUSING HAS DONE AND IS DOING FOR FLORIDA

A. Provides safe, decent and sanitary housing for over 250,000 families on an annual basis.

B. Provides housing opportunities for the "actual" and potential labor force in the lesser skilled/paying jobs in our various communities, thus providing a transition period into the economic mainstream.

C. Maintains an economic stabilizing effect for over 90,000 households within our State.

D. Significantly reduces a State's criminal population (which costs $25,000 annually per prisoner) by providing decent affordable housing, environment to maintain family cohesiveness, and a "home" base for economic improvement.

III. WHAT PUBLIC/ASSISTED HOUSING IS NOT DESIGNATED TO

A. Become the "dumping" ground of the community's and country's physically and socially impaired due to the lack of other comprehensive social and community programs.

B. Create ghettos and enclaves of economic and ethnic isolated welfare families.

IV. PRIMARY PROBLEM FACING PUBLIC/ASSISTED HOUSING

The drastic imbalance between the continued decrease in Federal financial support with continued increased Federal program regulations/restrictions and the ability to maintain sound management and fiscal integrity in the operation of public/assisted housing.

V. WARNINGS

With the enactment of the Gramm-Rudman Budget Balancing Plan, the present legislative procedures and U.S. HUD implementation procedures cannot avoid catastrophic upheavals in the social and economic fiber of our communities unless:

1. Congress significantly increases revenues to include various tax increases;
2. Congress in conjunction with the Department take a pragmatic look at public/assisted housing needs rather than a theoretical one;
3. The national housing issue becomes a primary consideration of the Tax Reform legislation;
4. Comprehensive changes be made to the performance funding system and related rental income policies;
5. Rental housing production program be maintained at a minimum level of 20,000 units annually through modification of in-place Federally assisted production programs;

6. Federal information and statistics on housing be re-emphasized rather than de-emphasized as is presently happening at U.S. HUD, Census Bureau, and OMB;

7. Public housing modernization programs be maintained at Federally funded level of $1.5 billion to conserve the $75,000,000,000 national investment in public housing.

8. Maintain a viable Section 8 Existing Program by utilizing existing private sector housing stock for rental to very low and low income families.

VI. RECOMMENDATIONS

A. Gramm-Rudman budget balancing plan:

1. FFY86 across the board program reductions of approximately 4.3% will have a very negative effect on programs whose demands far exceed their ability to produce; however, it will not be fatal, but FFY87 budget deficit cutting requirements under the Gramm-Rudman Plan would all but wipe out these programs without any adjustment period. Congress must "bite the bullet" on increasing tax revenues to maintain a safe and sane world from within as well as from without and make safe, decent and sanitary housing a national priority.

B. Performance funding system and related income policies:

1. Performance funding should incorporate a formal expense adjustment process that allows for base year expense level adjustments and costs beyond control (i.e., current insurance crisis where rates have increased 1,000 percent—see insurance recommendation).

2. Elimination of "other" income from the operating subsidy calculation.

3. A minimum operating reserve level (equal to 20% of the annual routine expense budget) with the ability for PHA's to receive funding adjustments to maintain this level, if proven to be operating in a prudent manner.

C. Related income policies should include:

1. 10 percent earned income deduction for working families. Working families should not be penalized for the percentage of their income they never receive or pay as an expense of working. Such expenses are a disincentive to get off the welfare roll and on the payroll.

2. Reinstate the 10 percent deduction for the disabled and elderly families.

3. Re-establish the family income admission limit at 80 percent of the areawide median income.

4. Recommend a ceiling rent for households with incomes up to 80 percent of median, not to exceed the FMR in the area, except with HUD approval. After three years the family's rent would be based on 30% of the adjusted income.

5. The PHA's total rental income should be at least 25% of the aggregate adjusted income for the tenants of the Authority.

6. Recommend a minimum rent for families whose sole source of income is AFDC. Minimum rent shall either be 30% of the AFDC grant or the State's designated portion for housing and shelter within the AFDC grant (whichever amount is greater).

D. Tax reform legislation should contain:

1. For multifamily housing development bond financed projects, establish depreciation schedules at least as favorable as current law.

2. Preserve at current levels tax incentives for investment, including tax credits and non-governmental tax exempt bonds, but require that investments be targeted to low-income housing or areas of physical and economic distress.

E. Public Housing Modernization Program should be continued:

1. An annual rate of 1.5 billion to maintain and keep competitive of our present public housing stock. This program has been most successful and effective within Florida.

2. To reduce future modernization improvements a project reserve replacement system based on capital needs should be established.

F. Section 8 existing program must be maintained as:

1. Effective method to bring the "existing private" rental stock on-line to serve the needs of the very low and low income.

2. Authorize at least 70,000 Section 8 Certificates during FFY 87 for nationwide needs.

G. Federal legislation required to control [illegible] costs:

1. Request Federal legislation [illegible] Housing Act of 1937 to limit the liability requirements to $100,000 per person and [illegible]000 per occurrence to any recipient of funding under the [illegible] from liability agents of any recipient.

a. The entire public housing [illegible] has been hit with skyrocketing insurance costs—in[illegible] percent in one year.

b. The housing authorities do not have any method to raise additional funds to cover this radical, unfair and unjustified (based on experience factors) action by the insurance industry—

We are "not allowed" to raise taxes.

We are "not allowed" to raise rents.

We are "not allowed" to receive direct Federal reimbursement.

2. The efforts of effective management to maintain a sound fiscal basis of operation is undercut without any ability of the PHA to counter, either legally or through financial recovery, causing tremendous disincentive in Staff fiscal goals.

H. Repeal David-Bacon Wage Act:

The Act should be repealed as it relates to HUD funded activities. The administration of this Act is costly and cumbersome. Some construction and rehabilitation project costs have increased by as much as 30 percent. Market forces should prevail as the primary wage setting mechanism on construction, renovation and maintenance activities. A repeal of the Act will lead directly to reduced cost of physical improvements.

VII. SUMMARY

1. We present these few facts and recommendations not as a shopping list but as a substantive direction to be taken if Florida and the Nation are to continue to have a "fiscal and physical" public/assisted housing program to assist the needs of our citizens without causing economic and civil chaos.

2. The Board of Directors and all of its members stand ready and willing to assist our legislators and the U.S. Department of Housing and Urban Development to approach public/assisted housing problems, define them, resolve them effectively within our limited Federal resources.

Community Development Section

GENERAL INTRODUCTION

In 1974, Congress enacted Title I of the Housing and Community Development Act (P.L. 83-383), which became effective Janaury 1, 1975. This new act replaced eight former categorical grant and loan programs under which communities applied for funds case-by-case for project categories; including urban renewal, neighborhood development program grants, open space, urban beautification, historic preservation, public facilities loans, water and sewer facilities grants, and the model cities supplemental grants.

Under the new program all of these were replaced by a more flexible system of "block grants." These were divided into two groups; communities over 50,000 population for an entitlement category, and communities under 50,000 population in the discretionary or small cities category. Title I was extensively revised by the Housing and Community Act of 1977 (P.L. 95-128) and most recently by the Housing and Urban-Rural Recovery Act of 1983 (P.L. 98-181).

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)

The major problem facing community development at this time is the reduction in funding at the national level. The HUD-Independent Agencies Appropriations Bill for FY 86 allocates $3.124 billion for CDBG, a 10 percent reduction from FY 85. For the State of Florida, this will amount to over $12 million based on the State's FY 85 CDBG allocation of $134,501,000, with $106,822,000 going to entitlement communities and $27,679,000 to small cities. The impact of the reductions is further increased as additional cities qualify for CDBG funds as entitlement cities.

More important is the fact that this program is "primarily" targeted to benefit lower income residents in the local communities receiving funds. For FY 1982, the Department of Housing and Urban Development reports that 90 percent of the Block Grant funds were spent on activities benefitting low and moderate income persons, with 9 percent eliminating slum and blight, and the remaining one percent addressing urgent needs in the locality. Further, studies show over 64 percent of their funds on activities to benefit low and moderate income persons.

CDBG recommendations

1. The House and the Senate should reauthorize the CDBG program for another three years, and should restore CDBG funding to the FY 85 level of $3.45 billion for the next three fiscal years. This will enable this program to continue to deliver services efficiently and effectively to low and moderate income families.

2. Greater Congressional oversight of the Small Cities CDBG programs administered by the States is sought to assure full compliance with the Federal legislative intents and purposes.

Urban Development Action Grant (UDAG)

The HUD-Independent Agencies appropriations bill creates a 25 percent cut in the UDAG program for FY 86 to a level of $330 million. Earlier, the Senate had approved a budget of $348 million.

The State of Florida has not been very successful in competing for and receiving substantial numbers of UDAG awards. Florida, as a rapidly growing state, has not been able to meet the strict selection criteria for distress. However, both the House and the Senate are considering modifying the UDAG selection system. The Senate proposes a one-third/two-thirds split of the funds, with one-third awarded on the basis of project quality and two-third awarded in accordance with the current system evaluating distress impaction and project quality. The House calls for a 40-60 split in the way the funds will be distributed, with 40 percent awarded solely on project quality measures.

UDAG recommendations

1. The Senate level of funding for FY 86 is supported, and the House proposed selection system is endorsed. A split of UDAG funds which awards 40 percent based on project quality would help Florida compete more effectively in the UDAG process. In addition, more funds would be available to communities that are less distressed, but which could effectively utilize UDAG funds in their redevelopment efforts.

2. A three year reauthorization of the UDAG program is recommended, with the funding level established at $440 million.

Section 312 loan program

No new funding is provided by FY 86 for the Section 312 program, but repayments and income from other sources should enable HUD to approve $70 to $80 million in loans.

Section 312 recommendations

1. This program should be maintained and funding continued based solely on the levels of repayments.

2. Further, closer attention should be given to the regulations for owner occupied and investor owned properties. With the rate of interest tied to one-year Treasury security, plus a one percent risk fee and a $300 multi-family and a $200 single family application fee, along with delays of from two to four months for approvals, there is a lack of flexibility in the program which negates the incentives originally intended by Congress. The one percent fee places a undue burden on low-income families, and the application fee, if charged, ought to be retained by the local government to offset costs of administering the program.

Rental Rehabilitation Program

The HUD funding bill provides $75 million in FY 86 for the Rental Rehabilitation program. This is a reduction of 50 percent from the FY 85 appropriation.

The Rental Rehabilitation program has proven to be a very effective program in the delivery of affordable housing units to low and moderate income persons. As of July 1985, some 2,247 projects with 16,424 units were reported in HUD cash and management information system. These projects represent approximately $48.6 million in program grant funds and $133.3 million in total construction financing. In addition, it is reported that for every $1.00 of Rental Rehab money committed, $1.44 is contributed by private sources; and for every $1 of public money invested, $1.27 of private money has been generated.

Rental Rehab recommendation

1. The Rental Rehabilitation program should be authorized for three years at $150 million per year.

Additional general recommendations

1. Eligibility of new housing construction under the CDBG program should be authorized.

2. Public service activities should remain an eligible activity under CDBG, and the 15 percent funding cap should be retained.

3. The Davis-Bacon Act should be repealed as it is applicable to CDBG projects. Cost increases in administrating the Daws/Bacon Act are excessive and result in

less money available for capital construction. The end result is less services being provided to low and moderate income persons.

4. The Housing Assistance Plan (HAP) should be retained in the entitlement CDBG program, as it is a good method to define local housing needs. However, the annual and three year goals section should be eliminated unless adequate program funding is available to realistically allow the communities to meet these stated goals.

5. The legality of Gramm-Rudman balanced budget plan is opposed. Congress should address the budget deficits under the process established by the Congressional Budget Act of 1974. The automatic reduction provisions raise serious legal questions, and appear to shift Congress's constitutional budget authority to the Executive Branch. The FY 86 proposed sequestering of previously approved funding is opposed due to the imposition of further budget restrictions than the 4.5% reduction and the lack of ability to execute planning and contracts based on previously approved funding.

6. With regard to tax code revisions, continuation of industrial revenue and mortgage revenue bond authority is strongly encouraged, with stronger targeting requirements imposed to assure benefit to low and moderate income persons.

7. The sale of the Federal Housing Administration (FHA) to the private sector is opposed.

8. Reduce the Federal regulatory requirements. There are presently 23 Federal regulating requirements impacting the CDBG programs.

Funding priorities

1. Funding for CDBG should be retained intact at FY 85 levels. Should budget cuts be needed for deficit reduction, then the following programs should be addressed prior to reducing *any* CDBG budget authority.

a. Reduction or elimination UDAG.

b. Reduction or elimination of Rental Rehab.

[Whereupon, at 6:26 p.m., the hearing adjourned until Thursday, February 13, 1986, in Dallas, TX.]

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IMPACT OF THE PRESIDENT'S 1987 BUDGET

THURSDAY, FEBRUARY 13, 1986

House of Representatives,
Committee on the Budget,
Dallas, TX.

The committee met, at 1 p.m., in room 15B16, Earl Cabell Federal Building, Dallas, TX, Hon. Martin Frost, presiding.

Mr. Frost. If I could have your attention, we're going to begin. Is this microphone working? Now it is, all right. We're going to begin.

I want to welcome you all to this hearing of the House Budget Committee. This is the fourth in a series of five hearings that are being held around the country in order for the committee to hear testimony and consider alternatives to the 1987 budget proposal offered by President Reagan just last week.

We have a bipartisan panel hearing witnesses, and I look forward to interesting and insightful testimony.

Our country remains in the throes of an enormous Federal deficit that, if unchecked, could destroy the ability of our economy to function for years, and even generations, to come.

In the last 5 years alone, our cumulative national debt has grown by over $1.04 trillion. When President Reagan took office in January 1981, the cumulative national debt of the country was $908.7 billion. Today that figure stands at $1.949 trillion. By September of this year, the President himself forecasts a debt of over $2.108 trillion. We have been running annual deficits in the range of $200 billion a year during the decade of the eighties, and that simply must come to an end.

Congress, last December, took a first step in reversing this trend by passing the Gramm-Rudman Deficit Reduction law. That legislation currently is being reviewed by the Federal courts; however, everyone agrees that the goals set out in that legislation should be reached even if specific parts of it are declared unconstitutional.

Clearly, we must meet the fiscal year 1987 deficit reduction target of $144 billion spelled out in Gramm-Rudman. The only issue is how to reach that goal. We each have our own priorities in achieving that objective.

My personal priorities involve a leveling off of defense spending and protection of some of the domestic programs targeted by the President. Others on the panel with us today may have different priorities. However, we all agree that action must be taken this year to bring deficits under control. Today's testimony will be extremely helpful in focusing on those choices.

Last week, President Reagan offered his 1987 budget proposal, and it is clear that his priorities remain unchanged from past years. He has again called for huge increases in defense spending and drastic reductions in domestic programs.

The President has proposed an increase of $34 billion in defense budget authority in 1987. This is a real increase of 8.3 percent.

At the same time, his budget proposes changes in policy which would result in spending reductions of about $28 billion in domestic programs in fiscal year 1987. And, excluding funding for Social Security, the President's proposal will result in reductions of about $264 billion for domestic programs between 1987 and 1991.

Today, we will hear from a number of witnesses who will explain the effect that the President's budget will have on the organizations, agencies, and businesses they administer.

We will focus particular attention on the ability of State and local governments to deal with the reductions in Federal funding called for by the President. Governor White will address the committee, and we will be especially interested in his comments.

In addition, we will hear testimony on the seriously depressed state of the oil and gas industry in Texas and across the country. We will also focus on funding provided for the Federal Aviation Administration and air safety in general. We must take action to insure that a tragedy like the Dallas-Fort Worth crash last August does not occur again. Finally, we will examine the alarming increase in the cost of health care in our country and the ability of poor and elderly Americans to obtain needed health care under the reduced funding levels called for in the President's budget.

It is the duty of both the President and the Congress to face the challenge of Gramm-Rudman and agree on budget priorities. President Reagan has offered his plan. It now must be reviewed carefully to see if it is indeed a realistic option. If not, alternatives must be found.

I want to thank all of those who have agreed to participate in today's hearing, and I look forward to your comments.

I'd like to recognize the members who are here. We have members of the Budget Committee: On my left, Congressman Boulter from west Texas, and I will recognize him as the ranking minority member in just a moment to give an opening statement; on my right, Congressman Lowry, a member of the committee from the State of Washington.

We will later be joined by House Majority Leader Jim Wright from Fort Worth, who is also a member of the Budget Committee.

And we are being joined by several of our colleagues from Texas who are not on the committee but who have an active interest in this year's budget: Congressman John Bryant from Dallas; Congressman Jim Chapman from east Texas; and Congressman Steve Bartlett from Dallas also will be joining us as the hearing is in progress.

At this point, I would like to call upon Congressman Boulter for his opening statement.

Mr. BOULTER. Mr. Chairman, I want to thank you for hosting this hearing. This year's budget and the budget process will be unique. The intricacies of the Gramm-Rudman-Hollings Emergency Deficit

Reduction Act put the budget process in a new and, I hope, more productive light.

With the passage of this balanced budget act, the American people can, and should, expect action from the Congress.

Mr. Chairman, you've cited some interesting statistics to show what a serious deficit problem we do have, as we run over $200 billion annual deficits with a $2 trillion national debt, this year our interest payments are approaching $150 billion on that debt. Of every tax dollar, 15 percent is going to pay the interest on that debt. And by the year 1991, if we do nothing, 40 percent of every tax dollar will go to pay just the interest on the national debt.

And we all know what that means to our business men and women, to working men and women, to farmers whom I happen to represent in large numbers. We know that our interest rates are too high, and as Government goes into the credit market to soak up available capital to finance this debt, we know what happens to interest rates and to business opportunities and to job creation.

The Gramm-Rudman-Hollings bill would produce a balanced budget by the year 1991. The President's fiscal year 1987 budget meets the $144 billion deficit target of Gramm-Rudman. I believe, Mr. Chairman, that the benefits of a balanced budget would be wonderful.

According to Paul Volcker's plan—he would reduce interest rates by 1 percent for 50 billion dollars' worth of cuts—in the year 1991 we would have 6 percent prime interest rates, 8 percent new home loans, our economy would be stimulated, the value of the dollar abroad would be weaker relative to foreign currency, we would be a competitive Nation abroad. That would be wonderful for our present generation and wonderful for our children as well.

So, the American people are looking to each of us for action.

As the only Republican member of the Budget Committee here today, I want to take note of the accelerated schedule that we Republican members of the Budget Committee are prepared to work on.

On Monday, I will be back in Washington for the first working session of minority Budget Committee members to work up a budget that will meet the fiscal demands of Gramm-Rudman-Hollings. A balanced budget, Mr. Chairman, is going to be achieved only through the cooperation from both sides of the political aisle.

But what we are here to talk about today, at least in part, is the President's budget, a budget which, as I say, does meet the Gramm-Rudman targets and a budget which certainly deserves our careful consideration.

Those who have written this budget off calling it dead on arrival, I believe, are doing a disservice to the American public and those they represent. It is a legitimate budget proposal that we can work with and, I believe, improve upon. One of the key elements in the President's budget is an element that, I think, is indicative of good things to come. It is a concept called privatization; selling off certain Government operations to the private sector will win greater efficiency in many programs and lower costs.

Next week, I will be cochairing a hearing with my colleague, Dick Armey, on the subject privatization. Jim Miller, Director of OMB, will be there to testify about the role of privatization in the

1987 budget. Again, privatization is a very positive aspect to the President's budget plan.

Another positive aspect of the President's budget, in my opinion, is that he flatly rejects the idea of a tax increase. We do not need another tax increase. As the President said in his State of the Union Address, it is time to attack the Federal budget and leave the family budget alone.

So, I feel that this is a worthy effort we are making here today, Mr. Chairman. I am pleased to take part in what I know will be an open and fair discussion. I hope that we will put partisanship aside and look toward the general good of this country for our generation and for generations to come. I do not doubt that we are going to gain valuable information here that we will take back to Washington, and I commend the chairman for having this hearing and thank all of those who have come to add their discussions to this hearing.

Mr. **Frost**. Thank you.

We will be proceeding under the 5-minute rule for the members of the committee and those participating on the panel with us, which means, of course, that each member will be limited to a maximum of 5 minutes of questions to the witnesses.

At this time, I would like to welcome our distinguished Governor of the State of Texas, Mark White. I am very pleased that he is here with us. Governor White will outline for us the effect of the President's budget on the State of Texas and his comments and recommendations in that regard.

Governor White, we are pleased to have you here.

STATEMENT OF HON. MARK WHITE, GOVERNOR OF THE STATE OF TEXAS

Mr. **White**. Thank you very much, Congressman Frost and members of the committee. I am delighted that you have come to Texas. I wish to welcome you who are not already residents of Texas. Seems that we have one. Congressman Lowry, we're glad to have you.

Mr. **Lowry**. Thank you, Governor.

Mr. **White**. I am delighted to have an opportunity to testify before this committee.

I think it's very important that you have also taken this discussion to the people. You are committed in Congress to a deficit reduction, and I know, having served with Congressman Wright when he was a member of the Texas Legislature, he understands that Texas is a pay-as-you-go State with a balanced budget every single time.

Now, the Governor of Texas sends over a balanced budget to the legislature every 2 years. Usually, the first thing the legislature does with it is use it as a doorstop. But at least there is that responsibility, and I think it's one that has served this State well.

Texas has a great stake in foreign trade. Some of it, but not all of it, is oil related. And our ability to compete in international markets has been severely hampered by an overvalued dollar. We now find ourselves with a very limited ability to respond to unforeseen circumstances, mainly the predatory oil dumping that Saudi Arabia and other OPEC countries are currently engaging in.

The price of oil has been driven down to levels that I fear could have serious long-term consequences for the Nation. We've already seen steep reduction in domestic energy production which could cause a significant loss of America's energy independence and could critically weaken our national security. Our Nation's security is directly related to our own ability to produce oil and gas in sufficient quantity should there be some national emergency.

M-1 tanks and B-1 bombers do not run on coal or hardwood, and I think it is important that we have adequate supplies for the fueling of those weapons.

Several years of Texas' revenue estimates have anticipated gradually declining oil prices. And I must underline the word "gradually." We have been decreasing our reliance on oil and gas within the overall revenue structure, and today we are down to about a 14-percent reliance on oil and gas severance taxes from some 24 percent just 3 years ago. We are monitoring the price of oil around the clock, knowing that it could tip the scale for us at any time.

If and when we tip to a revenue shortfall, I can assure you that we will make the hard choices necessary to stay within our means. The current economic situation in Texas is precariously balanced at this moment. That is the context in which we are measuring the impact of the President's budget proposals. The President's budget was not delivered in a void. It comes on top of Federal cutbacks last year and the year before that and the year before that. It comes on the heels of tremendous uncertainty about what form the tax revision bill passed by the House will do to the domestic oil and gas industry.

It comes after Congress has passed historic and far-reaching legislation to balance the Federal budget, and it comes at a time when our own State budget is being extremely tight by forces beyond our control.

Let me just make one further observation about the economic climate before we get into the budget. Despite setbacks in the oil sector, despite the slump in the semiconductor industry, progress is being made in efforts to diversify the Texas economy. Private and public sectors are working together in partnership to build a stable base for general economic growth to expand both jobs and profit. We're relying on the strength of that partnership as the only way to pull Texas out of the problems and put our economy on a steady course.

Frankly, we see little chance of doing that if one of the partners in that arrangement, in this case the Federal Government, continues its pattern over the past 5 years. Our job is next to impossible when the Federal Government pulling out, pulling back, reneging on promises, and dashing the expectations of State and local officials who are trying to work with Washington in achieving a solution to our common problem.

That isn't to say that we're grabbing to hold onto every Federal handout that ever came down the pike intent on never letting it go. We understand the need to put the Nation's fiscal house in order. We applaud the heightened sense of fiscal responsibility in

Washington as you comb the budget. We agree on the necessity of reducing and eliminating the Federal deficit because it means fewer economic problems for us all, and I think that you are in a search for ways to do it.

If Congress passes the President's budget intact, and we trust you won't, that we, in Texas, still count on the Federal Government to help us inspect our meat, to build roads and highways, to buy school lunches for kids that can't afford them, we need you as a partner. To help build wastewater treatment plants, to guarantee a talented teenager that that individual will get a loan to go to college. From the basic needs of sewage treatment in Dallas to the research dreams of a physics professor in Houston, these are investments in physical and human capital that we cannot ignore.

Let me mention just three areas where the President's proposal has hit hardest. First, in education.

In higher education, loans and grants to college students would be reduced or eliminated causing a $14.2 million loss to Texas. This would affect more than 52,500 students statewide. Who cares? The veterinary student at A&M who pays 3 points more on her loan rate cares, and the parents who would pay a larger fee in just obtaining the loan care. And certainly, the colleges and universities who would have to respond to a rising tide of needy students care. Some of these students might not even be able to continue school at all, and I care. And I think you do, and I hope the President does.

When someone slashes at the heart of our Federal student financial system, that's not just cutting Federal spending. It's cutting out an investment in human capital that would pay this Nation back a thousandfold in the long run. A thousandfold may be short.

James Michener, I think, estimates the cost of public assistance for his educational investment was something along the lines of $14,000. He estimates that he's paid over $60 million in taxes. Those are investments in the future. I think we have to recognize them.

Mr. Chairman, 3 years ago in Texas, we started the process of improving our elementary and secondary schools; through the efforts of hardworking educators, parents, business leaders, and maybe most of all, dedicated legislators, we passed an education reform bill, and we raised taxes to pay for those significant improvements.

Sometimes, I think we think the good fairy pays for all this. It's not true. People pay for it through taxes. We upped the pay of our teachers and we beefed up science and math programs, we gave a boost to remedial programs. And over and over, we emphasized that education is a full-time commitment, not just part time.

In education, Texas is pulling itself up by the bootstraps so that Texas students will graduate in coming decades better able to compete academically at any university or perform well in any job available to them.

I view education as an investment for Texas, but more importantly for the Nation. But will the Federal Government be a partner in this investment? I hope it will.

Let's look at social services, especially health services for the poor. In dollar amounts, Texas stands to lose more from Medicaid than from any other program. In payments to individuals, that could amount to about $179 million. Then you add the extra administrative costs the Federal Government wants the State to pick up, and that's another $14 million.

And it's the same story on AFDC, Aid to Families with Dependent Children. Texas would lose about $23 million in Federal funds for Aid to Families with Dependent Children. Last year, the program helped more than 350,000 low-income children and parents in Texas.

Not even then—we're talking about a very small amount of help, about $1.71 a day. Compared to other States, Texas has a modest program. But that means the reductions were felt much more deeply.

Child welfare services, child support enforcement, school programs for children with severe handicaps—all of these, as you know, will be cut under the President's budget. Unfortunately, these recommendations come at a time when the State is strained to make headway in the services that we provide for our poorest citizens.

Last year, our State legislature passed legislation which would provide indigent health care to those, the poorest of our society, who can least afford the increasing cost of medical service. And many of those services are going to go to yet-unborn children so that they will come into the world with whole bodies and whole minds so that they can be productive citizens. And now, even the most modest step forward is being threatened by Federal cutbacks.

I see humane social services as an investment in America's future and an investment in human potential and its productivity. Will this Federal Government of ours join us as a partner and sustain the investment? And I think you have the answer to the question.

Finally, in the budget, the administration is turning its back on investments in our basic infrastructure, our roads and highways and wastewater treatment plants. And if anyone doesn't think those are critical to the progress of society, just look at any undeveloped nation in the world. Yet, even in Texas, there are places, "colonias" they're called, where people try to live in conditions without much basic infrastructure not too different from what you would expect to see in a Third World country.

I think today marks a special day in the history of the city of Dallas. This morning there was an announcement made that through the cooperation, the leadership and the taxes paid by the citizens of this State that there is going to be a major revitalization of probably the most overcrowded freeway in the State, if not the Nation. North Central Expressway has been crying for solutions to the problem. The people in north Dallas have been asking the Government to respond. Today, Texas, the city of Dallas, the private sector, the public sector working together have worked out a complex and very expensive program to solve that highway transportation need.

And what do we see happening? In this budget, they are taking money out of the highway trust fund. The money paid in—they use the word "trust"—is going to be taken out in order to solve the deficit problem that was not created by the people who put the money in, wasn't created by the people who build our highways. And I think it's imperative that we hold and keep the trust of those people who paid.

The same with mass transit and air quality and road repair. All have been trimmed substantially. And as with education and health care, Texas recently made new commitments in infrastructure, new investments in roads and highways. Our first long-range water plan was developed and passed by the people with $1.2 billion authorization. With confidence, we predicted the plan would insure a safe and abundant water supply for all the people of our State beyond the year 2000. But now, with the uncertainty caused by the tax revision package before the Senate Finance Committee, we're in limbo. We cannot go forward with the bonds because we do not know whether Congress will later declare them taxable or not.

Once again, Texas has made an investment in its future. This time in physical capital. And we are asking that the Federal Government join us in that partnership.

What effect would the President's budget have on our State? It's all here in detail, 125 pages of analysis, and the bottom line is more than $600 million lost, much of it in vitally important investments, and we measure the loss, however, in more than just dollars.

Texas is a pay-as-you-go State, and I must point out that the President, submitting this 1987 budget, has never once, in his 5 years in office, ever presented to the Congress, a balanced budget. He promised us one when he was running for President in 1980, but we've yet to see it. And so, we measure the President's budget, not just in dollars, but in terms of commitment to making the hard choices that separate investments from other kinds of expenditures. In State government, we do it all the time.

I understand the President's concern for keeping a strong national defense, and I share his point of view but I differ on how we obtain that result.

I'd like to digress for just a moment and ask the Congress to look at where we're spending our money in national defense. I support the M-1 tanks, the B-1 bomber. I think it's important that we have all of those tools available should they ever be needed.

But we have aimed all of our defense as though we were going to be threatened solely by nuclear armed missiles coming from the north over the North Pole. The biggest missile that blows up every day in this country is drugs that's blowing up the minds of young people all across this Nation, and we haven't used our national defense effectively to stop that intrusion, invasion, that attack, that assault that comes every day with DC-3's and other airplanes loaded with marijuana and drugs that assault the people of this country.

Today in Texas, this strong national defense, a $1 trillion investment in the last 5 years—I believe that number is correct—1 trillion new dollars. All of those moneys spent, and yet we cannot detect an airplane flying between Del Rio, TX, and El Paso under 14,000 feet loaded with marijuana, loaded with cocaine, loaded with heroin, or loaded with terrorists, or loaded with bombs.

With a 600-ship navy, and I support a strong navy, we do not have a single, high-speed pursuit Coast Guard vessel on the Texas Gulf Coast. Not one. And I suspect that if we could get the executive branch to do it, we could find Texans who'd contribute it if they'd find somebody to staff it.

That's the bomb that went off in this country today. It's not a nuclear missile aimed from Russia. It's a bomb that blows up everyday in schools across Texas and creating the crime problems that we have in this country. And until we attack that problem and we get serious with it, these cutbacks don't mean much. These increases in defense spending mean very little to the true national security.

We must not waste that opportunity to maintain our human potential. That would be an empty and a meaningless national security, and I believe we have the intelligence and the leadership and the will power in this Nation to make a better choice to meet both our defense and domestic needs.

We'll be glad to join the battle and do our part to achieve a reduced Federal deficit, but we hope it will be a partnership. And we ask you to consider carefully whether the cuts will be made in programs that are just like cole slaw and cut everything in their way or in programs that are truly investments in our future.

I applaud your commitment to letting local and State officials and private citizens from across this country speak on this very important issue, and I know that where these cuts must be made investments also must be considered. And I think if we make the right choices we will eventually be paid back far more in dividends than can ever be measured in dollars alone.

In Texas, we are willing to make those investments, and our record of the last several years, I think, clearly demonstrates the commitment we have to make hard choices.

I urge the Federal Government, and knowing this committee, I believe the Congress will take the lead in helping make certain that we have not only a responsible fiscal program with a balanced budget, but being concerned with the human and security needs of our Nation.

Thank you very much.

Mr. **Frost**. As I mentioned earlier, we will be proceeding under the 5-minute rule. We have a young lady seated here in the front who is going to be timekeeper. I will ask that you stand up when the member's 5 minutes have expired so that that member will be able to see that his time is up.

We will start the questioning with Congressman Lowry from the State of Washington. Congressman Lowry.

Mr. **Lowry**. Thank you, Mr. Chairman, and thank you, Governor, for an excellent and very useful statement to us.

Last year I spent a lot of time as chairman of the Subcommittee on the Outer Continental Shelf in trying to resolve the division of funds on HE question. I know I'm not informing you of anything on that because you called me all the time, as did the other members of your delegation.

We, of course, in the reconciliation bill—in the budget on the reconciliation bill did include a settlement of which 27 percent would go to the States. Due to your work and other members of your delegation, but a lot through your work, that 27 percent was raised from the 16½, 16⅔ that Interior was insisting was the maximum.

We have not been able to pass reconciliation yet, which has in it about $400 million for the State of Texas as a result of this combined effort by all of us. We are hoping that that might come up the next week or the following week.

What is the effect on the State of Texas of the passage or the nonpassage of that which, to date, the administration is still opposing passage?

Mr. White. Well, the effect is that it would result in a conclusion of a long argument that has existed between the executive branch of the Government and the States. Congress said that there should be fair and equitable division. Obviously, the State of Texas, at a time when oil prices have dropped from some $28 to $15 a barrel in less than 2 months, is in need of those funds.

The allocation was determined by the Congress and I think fairly so. I believe that's true of Democrats and Republicans in Texas. I think they would agree on that issue.

We would use the funds according to the law. And at this time, there is a pending attorney general's opinion as to where it would be required to be placed, either the general revenue or into the permanent school fund. And I am hopeful, in either event, it will be used for educational purposes. But I believe that that must be the foundation of this State for the future, an investment in education. And I think, the Nation. And that's the reason I expressed in my remarks that when you see cutbacks in this budget on educational programs that are proven, we are shortchanging the future of the country.

I want to thank you, too, Congressman, for your help in making that allocation. Your leadership was vital to our success.

Mr. Lowry. Frankly, we're proud of what we were able to work out, and I really hope that the delegation from Texas, in both Houses, will be pushing hard so we can finalize this thing. It would be a terrible loss, after all this work, to have lost that.

Mr. White. The Congressman may not be up to date on this issue, but there was an attempt by the Department of the Interior to take the moneys that were held in escrow under our lawsuit and set those into the deficit account, and it was the requirement of our attorney general and land commissioner to seek injunctive relief against the administration trying to use those funds that were improperly allocated toward a deficit reduction when they had no claim on them either legally or in the congressional intent, I don't believe.

Mr. Lowry. That is true. And again, you've done a tremendous job on this.

One other question, if I still have time, because frankly, coming from Seattle, we're not very aware of the oil and gas business. And I come from a part of the country that probably thinks these falling oil prices are a wonderful thing in all aspects. In fact, we would think $5 a barrel would be even better.

Of course, by reading the newspapers out here, I realize that there are two real strong stories of this.

On proposals for fees on the imports, what do you think would work best, an oil import fee on all products, raw products, a fee on refined products, or a gas tax?

Mr. **White**. I don't think the gas tax would be effective at all because I think it would probably not have any impact upon our productivity of oil and gas.

The only reason that I would suggest that there be any kind—and I'm not making that suggestion today, and I am studying it at this very moment in my office and hope to have some statement on it next week, a more definitive statement.

Senator Bentsen has already made several announcements about that plan.

But the reason for concern should be just as intense in the State of Washington as it is in the State of Texas for one reason, not because the price has a lot to do with Texas' revenue. Certainly, as the Governor of Texas, I'm concerned about that. And I would not suggest that the Congress ought to bail out one State just for one reason, for some purpose that might impact your citizens in some detrimental fashion. There is one overriding reason to do it, and it's a national security reason.

And if we've learned nothing else from the past, we ought to learn one thing. We have seen the OPEC nations arbitrarily force up the price of oil overnight by the whim and the flick of a finger.

And when we were choking in Texas, even though a lot of the people in the North didn't realize it, but we consume more oil and gas here than any other State. Our consumers were paying the higher price. The people around this room were paying the gas price at the pump.

Our domestic natural gas prices are higher than the ones you pay in the State of Washington, even today.

So, we're talking as a consumer State.

The reason that we must have some sort of stability in the marketplace is we'll go right back to that same dependency, and the moment we do, we know the reaction will be to force those prices back up again and put the country back into another straitjacket economically. And I think there may be some strong support from national security to see that we have the maintenance of an oil and gas industry that can produce what's needed.

You have one of the Nation's leaders in Frank Pitts right here, who hopefully will be one of your witnesses, because this man speaks with great authority and more experience than I've ever had in the oil and gas business.

Mr. **Lowry**. Thank you.

Mr. **Frost**. Congressman Boulter.

Mr. **Boulter**. Governor White, I, like you, am still studying the advisability of the oil import fee and under what conditions I might be willing to support it. But I think you're exactly correct. If it is supportable, it is only because of the national security interests involved.

And yet, as your testimony points out, in States with declining prices and exploration and production falling off, we're losing severance taxes, and we are losing a very important source of revenue for our State.

And certainly, our own spending has been growing in our State budget. I think that the biannual budget is something like 15 percent higher than the last one. Budgets are just going up and up, and it seems like taxes are going up—or, some people call it revenue enhancement. In our State we had 4.6 billion dollars' worth of new revenue last year.

I appreciate what you said in your testimony about our State wanting to have a strong partnership but realizing the need for hard choices. So, let me just ask you: Would you advocate a Federal tax increase on the American people as a part of the solution to the deficit crisis?

Mr. WHITE. I don't think you need to do that until after—just as we're going to be doing the same thing here—after you have analyzed your budget, cut back in places where cutbacks can be justified. And then, when you get to a point in which the consensus of Congress says: That's it, we can go no further, and now look how much more money we need.

Only as a last resort, and I think that's an appropriate approach. That's what we're having here in Texas. I am opposed to increasing taxes. In the fact of an oil price of $15, it will be only as a last resort. We're not going to close the firehouse, the police station, the hospital.

Mr. BOULTER. Incidentally, Governor, I do want to make a point of personal privilege, and extend to you my sincere thanks for your efforts to bring about a solution to the white oil problem up in the Panhandle. Certainly that too accounts for part of our loss in taxes.

You mentioned in your testimony, Governor, AFDC, food stamps, and child nutrition. As I understand the President's budget, he is making—or, suggesting to the Congress—certain reforms in AFDC and food stamps and some of the other antipoverty programs so as to require job searches, work incentives, Workfare of some sort. And much of the savings that he's projecting are from those kind of reforms.

In the area of child nutrition, he's proposing that a family of four that's 185 percent above the poverty line perhaps should not have a breakfast subsidized or school lunch subsidized. I feel like my own kids, for example, shouldn't have their school lunches subsidized and we could use the money more to help kids who really need it.

We do have to make some reforms, and we do have to make some hard choices. But I think, Governor, we also have to make a lot of program terminations. The President is proposing to terminate, for example, the Legal Services Corporation, Amtrak subsidies, and the Interstate Commerce Commission. Do you have an opinion about the advisability of some of these reforms and program terminations being suggested by the President?

Mr. WHITE. Well, yes, I do have an opinion on that. I think that it's very important when you look at programs, such as prenatal care, nourishment for a yet-unborn child, indications are—scientific research indicates that good nutrition for an unborn child can amount to as much as 20 points increase in the IQ as one who is undernourished.

I think you also will find that a young child that goes to school with an empty belly is not going to be a learning child. I'm not going to say whose fault it is, and I'm not going to say or deny that the family structure is creating many of those problems. But that doesn't solve the problem for that child that has a hungry belly. This program does, in great measure, take that problem into account and is a good, solid solution.

My children are not going to qualify for it. I pray they never would. But there are many who have to look to that source in order to have some relief.

I want the Congress to look at this budget across the board, and I've said this before, it's important that we have a strong national defense. I notice that the Lear jet company people were advertising that the U.S. Air Force had purchased 80 Lear jets. I think it's important that our generals have good Lear jets to fly in. I have a jet plane, and it's been talked about from time to time. [Laughter.]

And I understand. And I wouldn't suggest any one of them fly in an old airplane. I now know why some of my opponents want me to fly in a 30-year-old airplane. But safety considerations aside, let's look and see what is truly national defense. Eighty Lear jets? Do we really and truly—that's probably $250 million. I don't know what——

Mr. **Boulter**. Governor, I appreciate that, and I agree with nearly everything you said about defense, and we've got to support some of these domestic cuts.

Mr. **Frost**. I'd like to welcome Congressman Armey, who has joined us, from the north Texas area.

We have a full schedule of witnesses. I'm going to recognize one more Democrat and one more Republican for Governor White, then, we will proceed to the next witness. When we get to the members who are not members of the committee, then I will go to those members who were not recognized to ask Governor White questions to ask the next witness questions.

But we do have a very full schedule, so I'd like to call on Congressman Bryant at this point. I will then call on Congressman Bartlett, each for 5 minutes, and then we will proceed with the next witness. Congressman Bryant.

Mr. **Bryant**. Thank you, Mr. Chairman.

I'd first like to thank the Governor for showing his leadership by coming here today and pointing out something that seems to have gotten obscured over the last 4 or 5 years, and that is the fact that, in spite of how it may have been carefully made to appear, this White House has never proposed a balanced budget in 5 years. Never once.

The impression somehow gets promoted to the public that the President proposes a balanced budget, and then a bunch of other people pass it on and then it's not in balance, and the poor President has to sign it.

First of all, he doesn't have to sign anything. He can veto whatever he wants to. And second, he has never proposed one in the first place. And I think that's a point that needs to be made, and I applaud you for having the courage to point it out.

Second, I'd like to thank you for making the observation that you made with regard to drugs. Every 2 years, candidates for public office—from justice of the peace all the way up to the U.S. Senate—campaign on a platform of being against crime. There are only so many laws you can pass to throw people in jail. And we've passed just about all of them here, and I'm sure we're all for a whole bunch more, too.

But the fact of the matter is, as you well know, Governor, having been attorney general, that drugs probably cause more crime and encourage more crime than any other single thing. Now, the fact is that this budget you just testified about, unbeknownst probably to many people, calls for a $19 million reduction in 1986 and a $17 million reduction in 1987 for the Customs Service efforts to control drug trafficking through the use of air vehicles.

I don't think that's a good thing. It also calls for a $4 million cut in the Customs Service efforts to reduce drug trafficking on boats and ships.

Now, since we are right here on the water, our State probably has more at stake than any other, except possibly Florida, which has been identified as the place where probably three-fourths of these illegal drugs come into the country. I find that to be a matter of great concern. I know that you are bound to be weary of talking about how to solve the crime problem but not really being able to get at it because of the extent to which it's caused by drugs coming across our border. And you don't have any tools, as a Governor, to deal with international problems. And I appreciate your pointing that out.

Mr. WHITE. Thank you.

Mr. FROST. Congressman Bartlett.

Mr. BARTLETT. Governor, I appreciate your being here and the time that you spent on the testimony.

I might say that, in my judgment, there's plenty of blame to go around. In the period of time that the Members of Congress and all public officials accepted all of our share of responsibility in finding a way to balance the Federal budget over the coming years so that we can continue to provide for quality of life and a standard of living for our children and grandchildren.

To do that is going to take a bipartisan approach, and it's also going to take the willingness of public officials to make choices under deficit reduction measures whether it's Gramm-Rudman or something else. If we're going to reduce or eliminate the $220 billion deficit between now and 1991, we're going to have to make some choices. It seems to me those choices are going to have to be that in order to fund some Federal programs, many of which you've articulated in your priorities today, we're going to have to defund others.

And that leads me to my question: If you were in our shoes, are there any Federal programs on the domestic front that you believe have a lower priority than the programs that you've articulated? I assume you mean that they have a higher priority. Do you believe that, and if you're not able to do that, would you therefore urge a tax increase? I know that you said that maybe after a while. But is that what you think is necessary, that we're going to have to have a tax increase? I don't agree.

And in the area of defense, is there any single item in the defense budget—you mentioned support for the M-1, the B-1, the 600-ship Navy. I assume you also support continued pay increases for the military. Are there any items in the defense budget that you would not support? Are there any choices of lower priority programs that you would defund or reduce the expenses for?

Mr. WHITE. Well, let me just mention, Congressman, safety of the Saberliner, which I don't think anybody has ever said it was an unsafe aircraft—that's what those Lear jets replaced. Eighty Lear jets approximate $250 million. There's $250 million. You put that down, and let's add these up. I don't think that has a great deal to do with national security.

Let's look at the uniforms that we have purchased at the sum of over $200 million. Let's put $200 million for uniforms. I don't know if you've had on a military uniform lately. I've had a very nice increase in my military rank in the last 3 years from PFC to Commander In Chief in the National Guard, and I've gotten a new uniform out of the deal. The new uniforms that the administration has purchased are too hot in the summertime and too cold in the wintertime. Unless you fight the next war in an air conditioned building, those uniforms are not suitable.

So, there's $450 million. And now, let's see where we could use that money. I think that would help balance this budget.

And I'm not talking about—I'm talking reallocations. I'm talking about let's be fair across the board, and let's talk about a 600-ship Navy. If they just give us one on the Texas coast and give us a little help on detecting aircraft coming in that are undetected today, we can do a great deal about the drug problems associated.

Mr. BARTLETT. Governor, I agree with that. But do you support continued acquisition of a 600-ship Navy, or do you think it should be 550 ships or some other number?

Mr. WHITE. If they just give us one, I might feel better about their 600-ship Navy.

Mr. BARTLETT. So, it should be 599, plus one.

There's a joke around Washington that there are some that are so eager to raise taxes, and the joke is that the person never saw a tax increase they didn't like. Here's the question: Did you ever see a Federal domestic spending program that you didn't like?

Mr. WHITE. That I didn't like?

Mr. BARTLETT. That you didn't like.

Mr. WHITE. If you'll point out the ones that are having problems today, I would look at a place—right now, the biggest problem I see from the Federal Government and what you're doing to the economy is the so-called tax reform legislation hanging over this country's business community today.

Effectively, without passing a single bill, you have frozen $1.2 billion in water projects for taxes. You've frozen real estate investment in Texas. You've frozen oil and gas investment in Texas.

Mr. BARTLETT. I agree with you, Governor——

Mr. WHITE. That's the one thing that we're having the biggest problem with in Texas.

Mr. FROST. Given the opportunity to have answered the question, I would observe to the Governor that every Member of Congress at this table, I don't know how Mr. Lowry voted, but every Member of Congress at this table from Texas voted against that tax bill, both Democrats and Republicans. Now, there are some other folks from other parts of the country that voted in favor of it, but we won't get into that.

I want to thank the Governor for his very excellent statement. He has made a real contribution to the proceedings today. We appreciate very much your taking time out of your busy schedule to be with us. Thank you very much.

Our next witness is the chairman of the Railroad Commission of the State of Texas, Hon. Mack Wallace. For those of you who are not from Texas and not familiar with the Railroad Commission, that is the agency that regulates the oil and gas industry in the State of Texas.

We're very pleased to have Chairman Wallace with us today.

STATEMENT OF MACK WALLACE, CHAIRMAN AND SENIOR MEMBER, RAILROAD COMMISSION OF TEXAS

Mr. WALLACE. Thank you, Mr. Chairman.

At this time, I would like to introduce one of my colleagues, Dr. William Fisher, who is director of the bureau of economic geology at the University of Texas, and he is here as a resource witness. There are few people in America who have a greater knowledge of oil and gas production in the United States as it is affected by the world market as Dr. Fisher, and I am pleased to have him with us, and, I think, he will add a great deal to this most important subject.

Mr. Chairman and members of the committee, my name is Mack Wallace. I am the senior member of the Railroad Commission of Texas, the State agency which, among other things, regulates the exploration and production of oil and gas and the transportation and sale of natural gas to the consumers of Texas.

I am most pleased to have this opportunity to submit testimony on the impact of the budget proposals presently under the consideration by the President and the Congress on the oil and gas industry.

Let me begin by being blunt. It is not going to make much difference what you do about the President's proposed budget for 1987 if we do not first take swift action to extricate this Nation's energy base from its current nosedive into subjugation under the direction of foreign governments.

We are told the President's budget proposals reorder national priorities. Yet, the energy needs of this county, which ought to be considered a priority on the highest plane of national interest, are scarcely mentioned. I consider such an omission alarming, to say the least. We are losing the energy war by default.

Recent events of the past few days, weeks, and months affecting this Nation's energy position in the world should be cause for grave concern to all Americans.

I am convinced we are witnessing an approaching tragedy with staggering consequences that threaten not only our economic stability but our national security, as well. These events impinge directly on the ability of the United States to search for and produce the natural resources that are absolutely essential to our national interest.

Drilling activity in the United States has fallen to levels not seen in the last 10 years. A total of 7,419 permits were issued to drill for oil and gas in the United States during the month of January, a decline of 13.3 percent from the comparable period of 1985. New field wildcat permits issued for the month numbered 636, down more than 28 percent from 1 year ago. Other exploratory permits drilling in and near existing fields totaled 731, a decline of 30 percent from January 1985.

There is more oil and gas yet to be found and produced in America, lots more with our improving technology but not under the present circumstances of foreign manipulation coupled with the lack of a long-range national energy policy.

Our imports of crude oil and crude oil products, on the other hand, are creeping upward and presently amount to 5 million barrels per day, roughly 30 percent of our needs. Since 1972, and this is a critical number, gentlemen, the United States has spent $549 billion for oil and gas product imports.

These numbers are unacceptable to me, especially at a time when our own Government is also considering increasing taxes in the guise of tax reform on our energy explorers and producers. Yet, the present administration and many in the Congress seem oblivious to the danger at hand.

The Texas Legislature, 9 months ago, by concurrent resolution, called on the President and the Congress to impose a tariff on all imports of foreign crude oil and foreign petrochemical products, declaring that the stability of America's oil and petrochemical industries is being threatened.

In the United States, we saw our reserves of oil and gas decline in the 1960's. We saw both reserves and production decline at alarming rates during most of the 1970's, and with that decline, the intolerable dependence of this country on foreign energy supplies.

With the level of drilling in the early 1980's, we added reserves equal to production and stabilized production. We now face acutely depressed drilling activity and, with it, the certain return to the decline and the dependency of the 1970's.

As the free world's largest producer and consumer of petroleum, we should not allow this to happen again.

The ability of the United States—and I'd say all the regions of the United States—to provide a secure domestic energy resource base is a national issue and a strategic part of our national security.

We are all in this boat together. No purpose is served for one region of America to point to another and say, your end of the boat is sinking. I can assure you, when it comes to energy, we will sink or swim together.

News stories talk about the glut of world oil being exacerbated by OPEC. I would declare that the present situation is not exacerbated by OPEC; it is caused by OPEC.

Today's shattered oil market is nothing more than the calculated result of another determined effort by the Saudi Arabians to manipulate energy exploration, production, and price, as well as thwarting development of alternative energy sources.

And with that, gentlemen, in today's paper there is a story in the Wall Street Journal, and it says this: "As a national goal, renewable energy has an uncertain future."

And you will all remember that we were engaged in a war for energy independence for a number of years. We need an alternate source, we need solar, we need all of those things. We need shale oil. We need to learn to gasify coal with more economic benefits. Those projects are winding down. That's today.

OPEC is succeeding. If this scheme is not challenged now, we shall be brought to our knees once again, as we were in 1973. I urge you, in the strongest possible terms, to respond quickly to this challenge. We must not return control of our energy destiny to unstable foreign sources.

The most important action this committee can take is to recommend the imposition of a sliding tariff on imported crude oil and crude oil products targeted at an agreed-upon price.

Revenues generated would depend on the magnitude and level of the tariff. Such revenues could be aimed at reducing the country's unconscionable deficit.

But, the long term, primary value of such a tariff on imported crude oil and crude oil products far exceed any benefits to the budget deficit.

We will have stabilized America's ability to produce our own natural resources. We will have declared to the world that we consider the exploration and production of our energy needs to be absolutely essential to our national security.

Congressmen, today we find ourselves in common peril. If we are to survive, we must join in common purpose.

This Nation must come together as one wheel with many spokes, all determined to move the United States in the direction of energy production at home, which means jobs, self-reliance, and national security.

For this reason, I urge this administration and the Congress to enact, as an emergency measure, a national security tariff on crude oil and crude oil products imported into America. As I said earlier, this tariff could be a sliding tariff which would send a clear signal to the oil-producing countries that we are going to shore up our domestic capabilities and declare that we are prepared to protect our own reserves. Let such a tariff become the cornerstone of a bipartisan energy policy for which all can share in the responsibility.

In this economic war for energy, I believe that if action is not taken now and Saudi Arabia, or any other foreign government, is permitted to continue to manipulate production levels and price, the first casualty in the worldwide scenario will be the United States, followed by Britain's North Sea fields.

The control of energy, then, will be effectively placed for the forseeable future in the hands of the Persian Gulf producers and the West will have been dealt a crippling blow in its domestic ability to produce oil and gas.

At a national coal conference in Chicago in 1979, I warned that the energy lifeline to the West from the Persian Gulf is dangerously susceptible to disruptions from a variety of sources. I specifically named the following: A rebel coup; a blockade of the Straits of Hormuz; an invasion of Kuwait or Saudi Arabia; an interrupted shipping lane by one of the warring nations of the African Continent.

Is there anyone in this room secure in the knowledge that none of these could occur today or within 1 to 5 years?

In conclusion, let me ask you to consider these factors:

By virtually all the reports I have received from operators, exploration and production budgets for the United States have been slashed substantially.

Now, at this point, I would tell you that Atlantic Richfield has slashed its 1986 capital spending by one-third, $2 billion, to reflect concern over falling crude prices that would sharply reduce the firm's oil and gas exploration in the United States. One-third, they have reduced it from $3 to $2 billion.

Now, this will effectively put this country under a drilling program that only protects lease holdings.

A U.S. Department of Energy proposed national energy plan forecasts the increased reliance on oil imports into the next century. By 1990—now, this is the U.S. Department of Energy talking—the United States will be more heavily dependent on oil imports than it was before the 1973 embargo. That's untenable. A decline in domestic production is forecast. That is unnecessary.

Middle East and North African reserves—now, listen to this other number—of 433 billion barrels dwarf U.S. reserves of 27 billion barrels. Now, this is the next critical number that you must carry—I say, if you remember nothing else that I say, remember this. Of the crude oil and products in the world today, 75 percent is produced by governments, not oil companies.

The production of oil and gas then becomes an instrument for foreign policy. This is clearly illustrated by the Soviet Union's decision of a few months ago to withhold the deliverability of crude oil to Western nations, thereby raising the price of crude oil.

Approximately one-half of the United States—now, this is the other thing that literally amazes me—approximately one-half of the U.S. trade deficit is in crude oil and crude oil imports.

We hear a great deal about the danger of the trade deficit. What are we going to do about the trade deficits? The trade deficit, based on prices of a couple of weeks ago, and I don't know what it'll be tomorrow, was that we would pay about $62 billion this coming year for imported crude oil and crude oil products. The next is automobiles at $22 billion; and, I think, the next is steel at $17 billion; on down to $13 billion for textiles.

But in times of danger, it has been this Nation's history to rally its forces to fight for the values it considers essential to its survival.

Time and time again, the forces of the United States, whether they be political, economic, or military or from one region or another, have joined together to deflect strikes aimed at its cherished values.

One of the most basic of those values has been American independence. And in our modern history, one of the ways we have successfully defended our independence has been through the recognition that a secure, domestic energy resource base is a strategic part of our national portfolio.

A national goal of energy independence that assures this country a long-term adequate fuel supply has been a longstanding one, at least up until now. Isn't it time that we take whatever steps are necessary to free ourselves from foreign dependence? Isn't it time that we free ourselves both economically and strategically at the same time? Or, must we wait for another international disaster before we take the energy steps necessary for our own national interest and security?

Now, in conclusion, I want to share with you part of a journey I took through several different newspapers.

And I say at the outset that everything is available to the American people. Unfortunately, you have to follow many newspapers to put together a scenario. And I have undertaken to do this, and I commenced in February 1983.

I read in one paper a story released from Abhu Dhabi and the United Arab Emirates where the Saudis say that the oil future of the world hinges on Saudi power.

Now, I thought that a country as great as ours, when it embarked on a course of energy independence, could do so with resolve. And I thought, at that point, we were still pursuing it.

Now, that's February 1983.

In October 1983, there's another set of headlines, "White House Abandons Goal of Energy Self-Sufficiency; U.S. To Depend On Arab Oil."

It now has become an estimate of what? National policy.

The next headline—now, keep in mind, as a national policy, we have been dependent for some 4 or 5 months at that point.

January 1984, "U.S. Seeking To Forestall World Oil Crisis." And what was that crisis? Because Iran and Iraq had embarked on a modern slaughter, which you don't have sufficient adding machines to calculate the deaths.

We were facing a world oil crisis. All right. Now, to terminate that, in April 1984, the threat was issued from Cairo, Sheikh Yamani made this statement: "He sees Arab oil as a political weapon"—When? In 1987.

What does that mean to you and I? It means that they have fired the first round in their intention to use oil as a political weapon by—What? Raising production and dropping the prices.

What does that do? That kills your domestic ability to produce in this country. It kills the production of alternate sources of energy, and it forces this Nation to—or, at least, encourages this Nation to abandon conservation as a national goal.

All right. In connection with that, some 18 months ago—and believe me, I am a child of the Arab oil embargo. I came on the Railroad Commission in September 1973. The embargo occurred in October. And I made up my mind that I would work as long as I was physically able to see that we never again got on our knees to a foreign government for any energy.

Eighteen months ago, or thereabouts, I think in December 1984, I appeared before the editorial board of the New York Times, and I made them a presentation similar to this, and I said: "We face a serious developing situation because I believe the Saudis intend to carry their threat out. And if we don't get ahead of the curve, we're not going to make it."

I asked them at that time to consider supporting an oil import tax into the United States, and I gave them the numbers of $5 a barrel. And in February 1985 in a lead editorial, they ran, "Let OPEC Pay the Debt" and recommended $10 a barrel, knowing that the Northeast would have to pay their fair share for national security.

I appeared before the editorial board of the New York Post with the same presentation. They recommended, in February 1985, a Federal oil surcharge, a step toward energy independence.

Since that time, the New York Post has editorialized recently: "Tax on oil imports would do most for deficit and OPEC."

The New York Times, out of frustration in December 1985, in another lead editorial said the same: "Tax Oil."

Now, why did I go to the New York Post and the New York Times? We, in Texas, who know what it takes to produce oil and gas have a responsibility to travel over this country and talk to other regions and say: "Let us come together and work this energy thing out." So, I went to the places where energy was not recognized as, perhaps, the priority that it should be, and I sought to visit with people who were opposed to the oil import tax. I have visited with people who have been opposed to an energy platform for this country, not out of intention, but simply not being able to understand the problem. It's one of education.

And with that, gentlemen, I would open myself to questions on this important issue. There are some observations at some point, it'll take me about 3 minutes to make from these two maps. But I realize that the committee is pressed for time, and I want to conserve your time.

Mr. FROST. Thank you for your very accurate statements.

First of all, I'd like to welcome our colleague, Jim Oberstar, from Minnesota, Member of Congress who is going to be testifying later on the subject of air safety, something we're rightly concerned about, and who is joining us up front for the other subjects.

The next four witnesses also deal with the subject of energy and the relationship to the budget. I would like to call those four witnesses, and I would hope they would summarize their statements, if they can, in about 5 minutes each. We will have questions for all of you at the same times, since the subject is related.

At this point, I'd like to call on Frank Pitts, a Dallas independent oil man who has been in business for a number of years and is widely respected in this State and in this Nation. Mr. Pitts.

STATEMENT OF L. FRANK PITTS, PITTS OIL CO., DALLAS, TX

Mr. PITTS. Mr. Chairman, distinguished members of the committee, thank you for providing me the opportunity to participate in these most important budget hearings.

My testimony today focuses on the imposition of a fee on imported oil and refined products as a means of preventing the dismantling of our Nation's oil and natural gas industry. Coincidentally, the imposition of an import fee is an economic alternative available for budget consideration. Without a temporary import fee, the future security and economic well-being of our Nation will be in serious jeopardy.

I will briefly outline the type of tariff I believe to be the most productive, the most reasonable, and the one with the least impact on consumers.

I believe a tariff should be a temporary measure, a measure that can be used by law to counter the dumping of cheap foreign oil on the world market by countries who control the surplus supply. The fee should be a variable fee set to a floor price, a price which approximates the finding costs plus a reasonable profit for domestic producers. In short, I advocate a tariff on imported oil and refined products which will allow American producers to be competitive with foreign producers, producers who, for their selfish reasons, dump oil at prices far below what American producers can develop and produce reserves.

Such a tariff system is not a windfall for domestic producers. Rather, it is a measure designed to keep them alive.

There seems to be little doubt that the Saudis have the staying power to continue on the course they have started, a course to eliminate the development of new reserves from high-cost producing areas. The Saudis can produce oil cheaper than North Sea, Alaskan, and Canadian operators. American producers are in the line of fire. Oil is already priced at tremendously low levels. Many believe that Saudi oil could go as low as $8 per barrel. And they would still have the ability to survive because of increased revenue from increased production. They have demonstrated that they have the clout to drive down the price dramatically in a short period of time and, perhaps, stay there for a long time, long enough, at least, to dismantle our domestic industry.

We cannot afford to allow our domestic industry to be dismantled. This will increase our reliance upon foreign oil from the Middle East and North Africa, an area that has 70 percent of the free Western World's proved reserves of oil, a tinderbox area of the world, and the back door of Soviet Russia. Iran and the Arab States alone control over 80 percent of the unused production capacity in the free Western World. Such increased reliance will exacerbate our already hemorrhaging trade deficit, force the closing of many banks, cost our country hundreds of thousands of jobs, weaken our national security, and perhaps irrevocably diminish our U.S. standard of living.

Energy is the lifeblood of an industrial nation, and Lord knows, we are the No. 1 industrial nation in the world. Oil and natural gas provide 70 percent—I repeat, oil and natural gas provide 70 percent of the energy used in this great Nation. There is no known substitute for oil in transportational uses. And Lord knows, we are on a—we are a Nation on wheels. Let us not kid ourselves and for a short time, for political reasons, fail to recognize that American oil and natural gas producers are already on our backs. Everything possible must be done to stop, in its tracks, the current dumping of crude oil. This act of dumping, whether by design or coincidence, will, if left unchecked, destroy for years to come our domestic industry. The implications for our Nation's economy, standard of life, and ultimate security are catastrophic.

We must not allow those who have interests in foreign oil and foreign refineries, those who drill only 13 percent of all domestic wells, to sway our judgment and convince us that we do not need measures to prevent further dumping of crude oil and refined products on the world market. We must question the assertions of these same companies that the current situation is good for consumers.

If the cartel disintegrates further and foreign oil can be bought for anything like $15 per barrel, there is absolutely no way the domestic industry can compete. Our domestic industry will literally go down the tube. This could cause—or, would cause the United States to become nearly a 100-percent importer of crude oil and oil products. Our Nation would then be truly hostage to political uncertainties of the Middle East and North Africa. Are we so naive to believe that the embargoes of the seventies and the terrific increases in prices cannot reoccur? Are we so naive to believe that any short-term gain to consumers and our economy cannot quickly be wiped out?

In closing, I recommend the imposition of a temporary, variable import fee as a measure to protect the viability of domestic producers, thereby reducing the potential for overdependence on foreign oil and to protect our economy and standard of living.

Such a program would transfer a portion of the profits of foreign oil producers to the U.S. Treasury as OPEC's prices drop without having any major effect upon the U.S. consumer.

Thank you.

[The prepared statement of Mr. Pitts follows:]

PREPARED STATEMENT OF L. FRANK PITTS

Mr. Chairman, distinguished members of the committee, thank you for providing me the opportunity to participate in these most important budget hearings.

Our domestic oil and natural gas industry is going through trying times, times of great uncertainty, falling demand and prices. In my more than 40 years as an independent oil and natural gas producer, I have certainly seen considerable change, continuing uncertainty and changes in markets. However, I have never seen the industry's viability so seriously threatened as it is today.

The uncertainty I refer to has been particularly evident in natural gas. Prices have fallen, on the average, at least 30 percent in the preceding 12 months. No one can project, with certainty, when natural gas prices will begin to flatten and improve. The recent precipitous decline in oil prices could further drag down the price of natural gas. Significant market share for natural gas has been lost to alternate fuels for boilers in electric generation and other industrial applications. In order to recover this market, the Power Plant and Industrial Fuel Use Act, an act which severely limits natural gas as a fuel for boilers, must be repealed. If the market improves, prices will improve. Continued weak markets will cause further declines in the number of gas wells being drilled. Ultimately, the result will be a severe shortage of natural gas.

A serious issue affecting our industry today is avoiding undue reliance upon imported oil. While some level of imported oil is necessary, we in the industry must do everything possible to explore for and develop additional domestic reserves of both oil and natural gas. Our national security and economy demand measures for maintaining and increasing U.S. oil production.

Our oil age is not over. The truth is that vast supplies of oil and gas remain to be produced in the United States because 98 percent of our prospective sediments for the accumulation of oil and natural gas remains untouched by drilling. Several years ago, our company, from the most authoritative sources available, produced a map. This map shows that three million square miles, onshore and offshore, 1,900 million acres, with thousands of feet of sediment from surface to granite, remain to be tested by drilling. Only 3 percent of our offshore acreage has even been leased for oil and natural gas exploration.

A 1980 study, commissioned by our company and pictured on the back of the map, revealed that U.S. production can be increased by building up our reserve base through increased drilling. The more we drill, the more reserves we will develop. A copy of this map is included for incorporation in the record.

Some of those who suggest that we do not need to expand our domestic production, defend their position by stating that our supply of oil can be obtained elsewhere. Just where is elsewhere?

The only area in the world that America and its allies can turn to for substantial additional quantities of oil beyond our current sources is the Middle East and North Africa.

We must all remember the embargo of the early seventies, the long lines at the gas pump, the tremendous increases in prices and the accelerated rate of inflation that were caused by undue reliance upon oil from this area. Further, we must be aware, that even if the oil is available, the 11,000 mile sea lane required to ship the oil to us is almost impossible to defend in the event of war or other hostile action against shippers on the high sea. The only way to avoid undue reliance upon this volatile area of the world for our oil production is to materially increase our domestic production. It is interesting to note that some congressional Members estimate that it costs American taxpayers as much as $50 billion a year to keep these sea lanes open. This cost is over and above the expense per barrel of the imported oil.

My testimony today focuses on the imposition of a fee on imported oil and refined products as a means of preventing the dismantling of our Nation's oil and natural gas industry. Coincidentally, the imposition of an import fee is an economic alternative available for budget considerations. Without a temporary import fee, the future security and economic well-being of our Nation will be in serious jeopardy.

I will briefly outline the type of tariff I believe to be the most productive, the most reasonable and the one with the least impact on consumers.

First of all, I believe a tariff should be a temporary measure, a measure that can be used by law to counter the "dumping" of cheap foreign oil on the world market by countries who control the surplus supply. The fee should be a variable fee set to a floor price, a price which approximates the finding costs plus a reasonable profit for domestic producers. In short, I advocate a tariff on imported oil and refined products which will allow American producers to be competitive with foreign producers, producers who, for their selfish reasons, dump oil at prices far below what American producers can develop and produce reserves.

Such a tariff system is not a windfall for domestic producers, rather, it is a measure designed to keep them alive.

There seems to be little doubt that the Saudis have the staying power to continue on the course they have started, a course to eliminate the development of new reserves from high cost productive areas. The Saudis can produce oil cheaper than North Sea, Alaskan, and Canadian operators. American producers are in the line of fire. Oil is already priced at tremendously low levels. Many believe that Saudi oil could go to as low as $8 per barrel and they would still have the ability to survive because of increased revenues from increased production. They have demonstrated that they have the clout to drive down the price dramatically in a short period of time and, perhaps, stay there for a long time—long enough to dismantle our domestic industry.

We cannot afford to allow our domestic industry to be dismantled. This will increase our reliance upon foreign oil from the Middle East and North Africa, an area which has 70 percent of the free Western World's proven reserves, a tinderbox area of the world and the backdoor of Soviet Russia. Iran and the Arab States alone control over 80 percent of the unused production capacity in the free Western World. Such increased reliance will exacerbate our already hemorrhaging trade deficit, force the closing of many banks, cost our country hundreds of thousands of jobs, weaken our national security and perhaps irrevocably diminish our U.S. standard of living.

Energy is the lifeblood of an industrial nation. Oil and natural gas provide some 70 percent of the energy used in our great Nation. There is no known substitute for oil in transportation uses. Let us not kid ourselves and, for short-term political reasons, fail to recognize that American oil and natural gas producers are already on their backs. Everything possible must be done to stop, in its tracks, the current dumping of crude oil. This act of dumping whether by design or coincidence will, if left unchecked, destroy for years to come our domestic industry. The implications for our Nation's economy, standard of life, and ultimate security are catastrophic.

We must not allow those who have interest in foreign oil and foreign refineries, those who drill only 13 percent of all domestic wells to sway our judgment and convince us that we do not need measures to prevent further dumping of crude oil and refined products on the world market. We must question the assertions of these same companies that the current situation is good for consumers.

If the Cartel disintegrates further and foreign oil can be bought for anything like $15 per barrel, there is absolutely no way our domestic industry can compete. Our domestic industry will literally go down the tube. This would cause the United States to become nearly a 100 percent importer of crude oil and oil products. Our Nation would then be truly hostage to political uncertainities of the Middle East and North Africa. Are we so naive to believe that the embargoes of the 1970's and the terrific increases in prices cannot recur? Are we so naive to believe that any short-term gain to consumers and our economy cannot quickly be wiped out?

I recommend the imposition of a temporary variable import fee as a measure to protect the viability of domestic producers, thereby reducing the potential for overdependence on foreign oil and to protect our economy and standard of living. Such a program would transfer a portion of the profits of foreign oil producers to the U.S. Treasury as OPEC prices drop, without having any major effect upon the U.S. consumers.

We must win this price war that the collapse of the Cartel has caused. We are in a fight, a survival of the fittest. In order for us to be fit and to win, we must play on a level field, a field where there exists true and fair competition. The imposition of an import tariff is the only way I know to level the field.

Sound energy policy will make it possible to minimize our import dependence by maintaining our imports at no more than current levels over the next decade. To do this, domestic production will have to increase to an average rate of 11.2 million barrels per day in 1994 to meet our needs. To move from our present rate of about 8.8 million barrels per day and also make up the loss due to the natural gas production decline of existing wells will require adding 7.9 million barrels per day of new production in 1994.

In order to make such production gains, 1,000,000 new wells must be drilled in the lower 48 States at an investment of $620 billion over the next decade. But, even to maintain our current levels of domestic production, we will need 685,000 wells and $440 billion in investment over the next decade. In either case, the bulk of production needed in the early 1990's must come from reserves not yet found.

OPEC is back in the driver's seat and in a few years, absent corrective measures and proper incentives for our domestic industry, we could be importing as much as ten million barrels or more of oil per day, providing they sell us the oil at all—not for today's prices, but at much higher prices. They did it before and they can do it again.

As of February 3, 1986, we had only 1,773 rotary drilling rigs operating in this country. We are already slowly going out of business. We need at least 3,200 to 3,500 rigs to be in operation to recreate the proper balance between our finding of new reserves and our rate of production and consumption.

The Federal Government has no responsibility above that of national defense. Other matters are important but, for the Federal Government, defense is top priority. This Nation cannot afford to be energy vulnerable. There is no excuse for the Nation being so. What sense does it make to build better machines of war for land, sea, and sky and fail to have an adequate American supply of energy, fuel, to keep them fighting? A copy of a brochure on national security is included for incorporation in the record.

The maintenance of our domestic industry is not only dependent upon fair competition, but also on fair, predictable taxation.

In September, 1985, the Ways and Means Committee circulated a tax proposal commonly referred to as Staff I/Rosty I. If ultimately adopted, these proposals would have repealed or significantly weakened tax provisions that history has shown are absolutely necessary for the formation of capital required for drilling by independents. Independents' capital does not consist of cash in the bank. Revenue, cash flow, from their existing production is reinvested in their drilling activity.

Knowing the devastating results on my operations if Staff I were enacted into law, I conducted a survey in October, 1985, of some 3,000 independents, approximately 25 percent of all independent producers—the only survey on the effects of Staff I on the drilling activity of independents. Independents drill 90 percent of all domestic wildcat wells and 87 percent of all wells. The survey is statistically valid, with the 321 respondents, from 15 States, drilling over 11 percent of all the wells drilled by independents in 1984.

The survey revealed that, if Staff I became law, independents would, on average, reduce their wildcat drilling by 84 percent, their development drilling by 68 percent and their total drilling by 71 percent.

Such a precipitous decline in the drilling by independents and the resulting loss in new reserves cause a dramatic increase in the already hemorrhaging U.S. trade deficit. In 1984, the U.S. trade deficit was approximately $123 billion. Of that amount, $60 billion, or roughly 50 percent was attributed to imported oil.

Mr. **Frost**. Thank you very much.

At this point, I would like to recognize House Majority Leader Jim Wright from Fort Worth, who has arrived and who will be participating, of course, in these hearings. Congressman Wright is a member of the Budget Committee in addition to his duties as majority leader.

Congressman Wright, we are pleased to have you, and if you'd like to make any statement at this point, be glad to have you do that.

Mr. Wright. Well, Mr. Chairman, thank you very much.

Let me express my pleasure at the presence of such distinguished and imminent authorities as the Railroad Commission's chairman, Mack Wallace, and Frank Pitts and to say that, while I have come in late and have not heard their testimony, I am probably well-advised to defer to other members of the panel so that they may ask questions and then maybe at a later point, I may have some.

Mr. Frost. Thank you.

We will, at this point, hear several of the other witnesses on the same subject, and the next witness is Don D. Montgomery, Jr., an independent oil man from Dallas, TX.

STATEMENT OF DON D. MONTGOMERY, JR., MONTGOMERY EXPLORATION CO., LTD., DALLAS, TX

Mr. Montgomery. I would also like to thank the committee for allowing me to testify today.

My name is Don Montgomery, and I am the general partner in Montgomery Exploration Co., Ltd., located in Dallas, TX. Our company is in the primary business of exploration and production of oil and gas. My family and I have been involved in the energy industry since the 1920's. This is not only my livelihood, it is my way of life. I hope that my son and my grandchildren will have the ability to contribute and to enhance my efforts.

Today, most Americans think in terms of the next 30 minutes or the next 30 days regarding the energy industry, not the next 30 years.

Daily, we are bombarded by our national newspapers and our television networks detailing, in euphoric terms, what new goals are now attainable because of the low cost of oil. The oil price drop is our latest gossip. Fly more, buy bigger. Let's drive across the country. The American consumer no longer must conserve on energy. It's plentiful and it's cheap. Why save? Why care?

But just how many people understand that this most recent phenomenon has a short shelf life? In reality, the dropping price is a future price for oil not even purchased. There are at least 21 different oil prices. What price is quoted and for how long?

And what does it ultimately mean for the American consumer? What will be the final price we pay?

There is an old Slavic proverb that says "when the fat get thin, the thin die." Our entire energy infrastructure is in danger of dying, not only oil and gas, but coal, nuclear, and the alternative sources of geothermal and solar energy are all being threatened. The United States has the expertise to find energy. Oil and gas exploration began in the United States. Saudi Arabian oil was first produced by Americans. And even today, we are regarded as having the greatest technological advantage in drilling and producing oil and gas. Our infrastructure is not weak; it's extremely strong. This is not an industry that needs protection; it needs support. And yet, this industry is slowly ceasing to exist. Independent producers who are the predominant finders of oil and gas are slowly fading from the industry. Outside funds, revenue from current wells and borrowing have heretofore been the three mechanisms for the independent producers to procure capital. The drop in the oil price has caused an inordinate decrease in these moneys available for investment.

If we are to keep this infrastructure intact and be able to rely on our own reserves, we need to promote continued technical expertise and to ensure that future exploration and production will not be curtailed.

We are already dangerously dependent upon the importation of foreign crude which severely threatens this infrastructure. If we become as addicted as the Saudis want, our prior attempts at conservation will have been in vain. Quoting from yesterday's New York Times:

> There are already signs that the interest of Americans in conservation is waning. Purchases of big cars are up, and sales of insulation for existing homes has fallen significantly in recent years. Meanwhile, institutions ranging from businesses to hospitals are postponing conservation projects.

This reliance on cheap foreign crude will damage the interrelated management of these natural resources past the point when they can be restructured during the time of scarcity or national emergency. And this time will come.

I want, again, to stress the importance of maintaining and preserving our energy infrastructure. In order to save this fragile system, we must think 30 years ahead and add an oil equalization/stabilization fee on all imports. Not only crude imports, but also refined imports.

This fee will provide a prudent and sane approach to the management of our natural resources. Without a viable industry to explore and produce our energy needs, we will continue to become hopelessly dependent on the fluctuating whims and internal objects of OPEC and its members. We will find ourselves without the technical resources to develop this necessary and depleting commodity.

In the testimony that I have submitted to the committee, I have also attached a chart which illustrates the drop in rig counts, applications to drill, reserves, production and number of producing wells a year for the State of Texas from 1978 through January 1986. I would like for this chart to be included in the printed hearing record, even though I am not using it as part of my testimony.

I want to thank the members of the committee for inviting me to testify before it. And I will be happy to answer any questions.

[The chart referred to by Mr. Montgomery follows:]

TABLE I

	1978	1979	1980	1981	1982	1983	1984	1985	1986
Texas rig count	855	770	988	1316	992	790	850	[1]669	[2]586
Applications to drill	28,735	32,490	43,465	51,929	44,936	49,216	41,329	[3]31.206	
Texas reserves:									
Oil (MMMSTB)	8.9	8.2	8.2	8.1	7.6	7.5	7.5		
Gas (TCF)	55.6	53.0	50.3	50.4	49.8	50.1	49.9		
Production:									
Oil (MMMSTB)	1.04	98	.93	.89	.87	.85	.84	[4].82	
Gas (TCF)	7.1	7.1	7.0	6.7	6.1	5.6	5.9	[4]5.6	
Number of wells producing (yearend):									
Oil	166,365	168,944	175,673	183,911	191,319	197,983	204,229		
Gas	33,157	35,377	38,579	41,088	42,772	44,763	45,715		

[1] August–11 month.
[2] 1 month.
[3] 11 months.
[4] Estimated.

Source: Monthly Data Review Railroad Commission of Texas, Oil and Gas Journal, and American Petroleum Institute.

Mr. FROST. At this point, we'd like to call upon Ben Love, chairman and chief executive officer of Texas Commerce Bancshares headquartered in Houston, TX.

Mr. Love, we are pleased to have you before this committee.

STATEMENT OF BEN F. LOVE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, TEXAS COMMERCE BANCSHARES, INC., HOUSTON, TX

Mr. LOVE. Thank you very much, Mr. Chairman.

Beginning my observations on the importance of the import fee, I'd like to provide a brief perspective as to a banker's duty and responsibility to a rather broad constituency and observe that a bank can be no stronger, can prosper no more than the region in which it operates. A bank cannot be an oasis in an economic desert.

And if the strongest component of the growth of any region's economy is unemployment, then the banking organizations operating in that region inevitably will be confronted with problems.

I think it might be useful to address, rather simplistically, a question, and that is whether or not banks have any responsibility in financing the domestic energy industry.

We have seen since the Arab embargo of some 10 years ago a national effort in which Congress has been involved in finding alternative sources to energy, meaning alternative sources of energy to oil and gas. Some $8 billion a year has been expended for a number of years in trying to develop synthetic fuels. There have been extensive projects involving the U.S. Government as a partner in the gasification of coal and utilizing our vast supply of coal as an alternative to oil and gas.

And maybe on the cocktail circuit, we have also talked whimsically about solar power.

But after this Nation was confronted with gasoline lines and the specter of soaring prices over which we had no control, it dedicated a mammoth effort to finding some alternative source of energy.

Yet, as we sit here this afternoon, February 1986, we, as a Nation, are dependent largely on oil and gas as our source of energy. And therefore, banks, indeed, are involved in financing this vital industry and, perhaps, should continue to be.

But, Mr. Speaker, you have asked me to address this from the perspective of banks, and I would point out that in their 1985 year-end statements, the five major banks in Texas had some $10.7 billion invested in energy-related loans. Ten percent of those were nonperforming, and 4 percent of those loans—that would be about 16 times the normal loan loss incurred over a 10-year period by most of these banks—were in the loss category. So, the banks do have a stake, not just in this State but throughout the energy belt and, indeed, the New York banks could easily be represented here today and provide similar testimony.

As others have brought to the committee's attention, the situation today is stark. We had a 32-percent decline in drilling rig activities the first quarter of 1985, and the situation has deteriorated rapidly since then.

Mention has been made by Mr. Wallace, about another major oil firm's action, today's statement simply being the latest in a series by major oil companies, of a one-third decrease in their exploration effort for the coming year.

The independents, as Mr. Pitts has pointed out and Mr. Montgomery has pointed out, literally face extinction as we have seen the decline from 4,500 rigs to 1,200 rigs.

We have had a decline in employment over the past 7 years of those who are active in the energy industry of over 100,000 people, and that is simply through 1985. It does not include the precipitous decline which has been exacerbated in 1986.

What's happening to our energy industry? Those companies who owned two-thirds of the Nation's energy reserves have been replacing only 50 percent of their production over the past 7 years. So, we had a domestic crisis in the making before this latest collapse in prices.

I think that if we do not enact some kind of import fee, whether from the perspective of trying to address and decrease the budget deficit, whether from the perspective of trying to preserve some means of propelling the hardware that we are buying annually for our national defense—a $300 billion total outlay some one-third of which is related to hardware, domestic hardware owned by U.S. taxpayers that we are increasingly making dependent on being propelled by foreign oil over which we have no control whether we might address the strains being placed on financial institutions and recognize that those institutions have a responsibility to depositors to maintain a soundness in the financial system of this country. Recognize that banks are not generally run by Las Vegas types who have a propensity to be attracted to extreme risks. Now the energy industry certainly appears unacceptably risky to most bankers in the country, a risk over which we have little or no control currently.

I think from many different perspectives that we should encourage you to look seriously at the import fee.

Henry Ford, the father of the Model T and maybe also the father of the energy consuming industry that motors us around the country today, once said that "If you think you can or can't, you're right."

I think with the implementation of this import fee that we can reduce the budget deficit, that we can enhance our national security, we can preserve our domestic energy industry so critical to this Nation, and we can from the standpoint of every American who deposits money with a sense of security in our banking system enhance the soundness of our system.

Thank you very much.

[The prepared statement of Mr. Love follows:]

PREPARED STATEMENT OF BEN F. LOVE

Thank you for inviting me to present a Texas banker's views on the current state of the energy industry and a measure which should be thoughtfully and affirmatively considered by Congress to reserve some vestige of this nation not being almost totally dependent on foreign supplies of, and pricing of, oil.

A banker has responsibilities to a broad constituency. This would include his duty to the bank's owners or stockholders, customers and employees...but his major responsibility is to the health of the economy in which his bank operates. If there is any question about this observation, then the questioner should evaluate whether or not any bank can be an oasis of prosperity in an economic desert. If the major growth component of the bank's regional economy is unemployment, the bank's foundation of safety for its depositors will inevitably be shaken.

The distinguished members of the House Budget Committee might initially tend to dismiss my views on the oil import fee as being too subjective since I represent 70 banks all operating within the State of Texas. I suggest that the preservation of our domestic energy industry is a national issue, regardless of what states are the primary producers.

For example, after the OPEC oil shock which ravaged the nation's economy and threatened its financial system only ten years ago, both the public and private sectors in this country devoted large, measurable financial resources to developing alternative sources of energy. OPEC threatened the supply of oil, and our already-weak domestic oil industry could not produce an adequate supply. We became the victims of price extortion as a consequence.

Understandably, therefore, our Federal Government began spending approximately $8 billion a year in an effort to develop synthetic oil. Other massive sums were invested to gasify coal and utilize coal in a way which would not damage our environment. Other Federal expenditures or tax benefits were extended to such oil alternatives as producing energy from windmills and solar experimentation.

Today, a decade latter, this nation still relies on oil and gas--finite resources--for its energy.

From a myriad of perspectives, it is the most important single industry in the United States. Banks throughout the nation--including the largest money center banks headquartered in New York--are deeply involved in financing the industry. Ten years ago, the unparalleled escalation of price by OPEC threatened the world's financial system. Just ask former Chairman Arthur Burns of the Federal Reserve about the concerns of this nation's central bank in assimilating or recycling petro dollars.

Only ten years ago, the Wall Street Journal repeatedly questioned the ability of this nation's financial system to supply adequate funds to finance the critical expansion of our domestic energy industry. The banks rose to the challenge.

Today, those same banks which responded to a national outcry for money needed to expand exploration and development of domestic oil and gas are confronted with a decline in price which threatens their financial foundations. And, I am talking about banks which loaned money prudently! I am not talking about the Penn Square newcomers. The banks to which I refer have a 40-year record of expert lending to the energy industry.

Yet, many of these banks have been twisted and damaged by the whiplash expansion of production by OPEC and collapse of prices.

The members of the Budget Committee should recognize bankers for what they are. Bankers are not Las Vegas types. The spreads on which banks operate are increasingly thin. The stark fact is that this most recent OPEC shock has been so severe that bankers will be cautious to an extreme in assembling funds to lend to the domestic energy industry should the nation be confronted with the same crisis in the future as the OPEC embargo of ten years ago.

Thus, Congress has a dual interest both in preserving some measure of this nation's energy self-sufficiency and in preserving some stability in its banking system...both of which have been twice victimized in the past decade by OPEC.

Examine the "big five" banking organizations in Texas. They currently have approximately $10.7 billion outstanding in energy loans, 10% of which are non-performing. That is three times the national average of non-performing loans. Additionally, in 1985, 4% of these five banking organizations' energy loans were charged off. This would be approximately 16 times the charge-off ratio experienced by Texas Commerce over the past ten years.

And, what about the future of not only the energy loans of Texas banks but of energy loans made by banking organizations from New York to San Francisco?

The most recent Hughes Tool rig count confirms that the independents--who do approximately 80% of the drilling each year--are disappearing daily. The rig count has dropped from 4,500 in 1982 to approximately 30% of that level. This portends another disaster considering that domestic energy companies owning two-thirds of U.S. reserves replaced only 50% of the oil and gas they produced from 1977 to 1984.

Without the import fee designed to retain some semblance of domestic production, unquestionably the ultimate result will be more dependence by this nation on foreign oil...and, that is synonymous with more certainty of OPEC supplying this nation oil at ransom prices. It means that we should look forward once again to the lines of automobiles awaiting service at gas stations, just as we did ten years ago.

And, what about the $300 billion which this nation is annually spending on defense? What portion of that $300 billion is devoted to military hardware which must be propelled by crude oil? $75 billion of taxpayers' money annually goes into that type of military hardware dependent upon being energized either by domestic or OPEC oil. Is it prudent management to expect a certain and continuing source of crude oil to meet our national security needs when that thin supply line originates in a sector that has--since biblical recordings--been the most unstable area on the planet?

And, what about the domino effect?

OPEC is now expanding its output of crude oil to collapse world prices; the result being the destruction of our domestic exploration and development capabilities. Unemployment in the energy-producing states is soaring...and this will adversely impact other states, too. Tremendous strains are being placed on financial institutions where the American saver deposits his savings. Real estate values have decline as much as 40% in many major cities of the country.

And, to repeat, bankers will no longer gamble their resources in what has become a Russian roulette pricing game controlled entirely by foreigners; bankers will be exceedingly reluctant to again risk their banks in financing those individuals and companies who seek to drill for new sources of oil and gas.

Finally, when this nation is experiencing a $200 billion annual budget deficit, the oil import fee--in addition to standing at bay those OPEC producers who would victimize our domestic energy industry--would reduce the budget deficit by amounts estimated to range from $10 billion to $18 billion annually.

Henry Ford, the father of the Model T which gave birth to an industry which consumes over 50% of our domestic energy production, once observed, "If you think you can or can't, you're right." I think the import fee can contribute to the preservation of the domestic energy industry, can contribute to national security, can contribute to reducing the budget deficit and can contribute to the stability and soundness of this nation's banking system.

Mr. **Frost**. I would ask that Mr. Love, Mr. Montgomery, Mr. Pitt remain available. We have one more witness on this panel, and then we will have questions for all of them.

At this point, Prof. Barbara Reagan from SMU. Dr. Reagan, we are pleased to have you before us. And if you would have a seat to the right of Chairman Wallace, we'll be glad to have your testimony.

Ms. **Reagan**. Thank you.

Mr. **Frost**. If you could summarize your testimony.

STATEMENT OF BARBARA B. REAGAN, PH.D., PROFESSOR, DEPARTMENT OF ECONOMICS, SOUTHERN METHODIST UNIVERSITY, DALLAS, TX

Ms. **Reagan**. I have been asked to testify on the broader aspects of these issues.

If the deficit is to be dealt with, as we agree it should, then increased revenues are undoubtedly going to be necessary. The recent tax reductions have not generated the promised economic growth and increased revenue.

The purpose of my testimony is to discuss tax alternatives in budget-balancing proposals. Because time is so limited and I can't mention all possibilities, I want to just outline very quickly a framework within which we can analyze policy alternatives and then note a few examples.

To begin, let's talk about economic goals: One, efficiency in allocation of resources; two, equity; and three, stabilization and growth of the economy. Then we need to note that sometimes there have to be tradeoffs among these goals in designing policies.

And then, finally, I want to comment on a few current proposals.

The first of the economic goals focuses on allocation of resources, which is an efficiency issue. One responsibility of the Government is to provide goods and services that the market cannot provide because of the characteristics of those goods. Private sector markets will not find it profitable to produce enough of these social goods. And just a few examples: I'm talking about defense; I'm talking about education, roads, research and development, and so on.

We don't disagree that provision of public goods is a proper role of Government, and that the Government sometimes has to allocate resources through the tax system so that enough of such goods are produced.

What we do have to do is look very carefully at whether the benefits exceed the costs of whatever proposed increments are being discussed.

In addition, the Government has justification for interfering in the market whenever the market fails to achieve efficient allocation of resources, as for example, when there are externalities that need to be internalized, when the market structure is not a competitive one, or when transaction costs are high as in getting information on job openings.

In terms of tax policy, we want to select policies that minimize interference with the market system or work in the direction of correcting market failures.

Now, it's difficult to talk quickly about equity issues. I just will mention that, in terms of tax policies, we need to carefully analyze the impact on income distributions and try to choose those policies with the least adverse effects on efficiency.

In terms of stabilization and growth of the economy, fiscal policy should be designed to achieve goals of high employment, a reasonable degree of price stability, avoidance of severe recession or depression, and an acceptable rate of economic growth. We need to analyze proposals in terms of their effects on aggregate demand and investment. We can consider two broad types of policies; those that have a built-in, automatic, countercyclical response, such as unemployment compensation, welfare programs, increasing marginal tax brackets and progressive steps; and selective policities, such as tax policies directed at encouraging investment.

Now, there are all kinds of tradeoffs among these goals. Some of them will have a low efficiency cost. Some of them are regressive and thus seem to be inequitable. I suggest that we have to look at these tradeoffs, and this sometimes is where your jobs become very, very difficult.

Now, within this framework, let me make several comments about tax increases. I don't believe that any version of a tax reform bill currently proposed will effectively eliminate the many loopholes now existing in our income tax system. These loopholes result in gross inequities and gross distortions of capital allocations with too much capital flowing to some industries to the detriment of other industries.

Consequently, I think, you should look very carefully at a graduated minimum tax on both individuals and corporations to help deal with this problem.

Furthermore, I think, too much emphasis is being placed recently on reducing the number of steps in the income tax schedule under the guise of simplicity. We need to think about the disincentives to work if those steps have very steep separation.

A lot has been said about selling off Federal assets, such as our oil reserves, to help balance the budget. Selling off Federal Government assets should be recognized as a reduction in our Nation's capital and should not be used in reduction of budget expenditures. Any sales proceeds should separately be applied to reducing the deficit.

If a business sells off capital assets, such sales proceeds should be used to reduce the debt of the business. Certainly, the business's banker would normally insist on this.

If a value added tax or any other form of sales tax is used, the effect is going to be more severe on middle and lower income people than on upper income people. As a matter of fairness to offset this, there should be an upward adjustment in the exemption allowance on income taxes for the lower and middle families.

You should consider a short-term tax on all gasoline as gasoline prices are falling. That would be more efficient in terms of allocation of resources than an oil import tax.

A tax on alcoholic beverages and cigarettes would also be efficient because of the high inelasticity of demand.

These are just a few specifics that we can mention. In closing, let me emphasize that I think we've got to recognize that we are one

Nation, that we are, first and foremost, citizens of the United States of America. We are not a loose federation of states. This was settled way back when our forefathers gave up the Articles of Confederation and adopted our Constitution. Consequently, the National Government should deal with problems that are national in scope.

I don't have to tell congressional leaders, such as you all are, that we are adrift in a sea of ambivalence of the general population who fear the deficit, yet aren't sure that raising their taxes is necessary, who fear the tax changes will not be fair to the middle class or the poor, who worry about recession and even greater numbers of workers being laid off, who want strong national defense but fear inefficiencies in military expenditures and question throwing ever increasing dollars at the Pentagon and cost-plus contractors.

Your responsibility to keep a sane, balanced approach to complex situations really is awesome. Responsible leadership in these matters is what you strive for and what we applaud.

Barnum probably would say it's time to quit trying to substitute posturing for leadership. Politicians who forget their responsibilities may try to play a game of chicken and try to gain shortrun political position. Or they may cynically argue that all that really matters is putting together a package that can be passed by Congress and not vetoed.

I have more faith in the voting public's ability to understand and care. Isn't it time to quit talking about a revenue-neutral tax reform, and a fiscal policy of a balanced budget or deficit reduction with no increase in taxes?

Isn't it time to quit saying no tax increases for unnecessary expenditures? That is obvious.

Isn't it time to talk about tax increases for needed government services when the benefits exceed the costs?

Thank you.

[The prepared statement of Ms. Reagan follows:]

PREPARED STATEMENT OF BARBARA B. REAGAN

If the deficit is to be dealt with—and it should be—then increased revenues are necessary. The recent tax reductions have not generated the promised economic growth and increased revenue.

The United States for the past several years has been "living-it-up" on borrowed money—our country has been "high" on the powerful drug known as deficit financing. Our national debt has doubled in five years. We have become a debtor nation. Congress must balance the budget; and hopefully, over time reduce the deficit.

The ultimate consequence of deficit financing not brought under control is rampant inflation with its many attendant woes. Inflation historically has been the way nations have dealt with excessive government debt. The less frequently used alternative has been repudiation of debts.

The purpose of this testimony is to discuss tax alternatives in budget-balancing proposals. Because time is so limited, I want to outline a framework within which we can analyze policy alternatives, and then mention some examples.

To begin, let's talk about economic goals—efficiency in allocation of resources, equity, and stabilization and growth of the economy. Sometimes there have to be trade-offs among these goals in designing policies. Finally using this framework, I will discuss some current proposals.

I. ECONOMIC GOALS

A. Allocation of resources (efficiency)

One responsibility of the government is to provide goods and services that the market cannot provide because of the characteristics of those goods. Private sector markets will not find it profitable to produce enough of these social goods. (Examples include national defense, public education including day care and nursery schools, parks, judicial systems, research and development, etc.) We don't disagree that provision of public goods is a proper role of government, and that government sometimes has to allocate resources through the tax system so that enough of such goods are produced. We need, however, to consider whether benefits exceed the costs of proposed increments.

In addition, the government has justification for interfering in the market whenever the market fails to achieve efficient allocation of resources, as for example, when there are externalities that need to be internalized, when the market structure is not a competitive one, or when transaction costs are high as in getting information on job openings.

In terms of tax policy, we want to select policies that minimize interference with the market system or work in the direction of correcting market failures.

B. Equity

While it is difficult to define distributional goals specifically, these are important for determining tax and transfer policies. In terms of tax policy, we need careful analysis of the impacts on income distribution. Furthermore, we want to choose those policies with the least adverse effects on efficiency.

C. Stabilization and growth of economy

Fiscal policy should be designed to achieve goals of high employment, a reasonable degree of price stability, avoidance of severe recession or depression, and an acceptable rate of economic growth. We need to analyze proposals in terms of their effects on aggregate demand and investment. We can consider two broad types of policies; those which have a built-in automatic counter-cyclical response, e.g. unemployment compensation, welfare programs, increasing marginal tax brackets; and selective policies, e.g. tax policies directed at encouraging investment.

II. TRADE-OFFS AMONG GOALS

A. Efficiency and equity

Taxes on inelastic demand (supply) are more efficient but generally less equitable. For example, we know the personal income tax levied on labor income (payroll tax) creates very small efficiency costs because of the inelastic supply of labor. However, most economists would agree that wage (payroll) taxes tend to be regressive, and thus inequitable. Another example is sales taxes on food. Again, the tax has low efficiency costs but is considered to be a regressive tax.

B. Allocation and growth

If the economy needs expansionary policies, we need to select policies which minimize the creation of inefficiencies. For example, the Investment Tax Credits and Rapid Write-offs are essentially subsidies to induce investment which should enhance economic growth. However, they also may lead to investments that yield a lower than profitable rate of return and should not be undertaken. This policy then results in an efficient use of investment funds.

C. Growth and equity

Expansionary policies directed at encouraging growth may actually harm equity goals. Consider again Investment Tax Credit and Rapid Write-offs. These may actually reduce the tax burden on capital owners relative to the tax burden on workers and have a regressive effect.

III. RECOMMENDATIONS

Within this framework, let me make several recommendations:

1. I do not believe that any version of a Tax Reform Bill currently proposed will effectively eliminate the many loopholes now existing in our income tax system. These loopholes result in gross inequities (unfairness) and gross distortions of capital allocation with too much capital flowing to some industries to the detriment of other industries. Consequently, I recommend a graduated minimum tax on both in-

dividuals and corporations to help deal with this problem. Furthermore, too much emphasis has been placed recently on reducing the number of steps in the income tax schedule under the guise of simplicity. We need to think about disincentives to work if the steps are steeply separated.

2. Much has been said about selling off Federal assets (such as our oil reserves) to help balance the budget. Selling off Federal Government assets should be recognized as a reduction in our nation's capital and should not be viewed as a reduction in budget expenditures. Any sales proceeds should separately be applied to reduce the deficit. If a business sells off capital assets, such sales proceeds should be used to reduce the debt of the business—certainly the business' banker normally would insist on this.

3. If a value-added tax (or any other form of sales tax is used), the effect would be more severe on middle and lower income people than on upper income people. As a matter of fairness, to offset this there should be an upward adjustment in the exemption allowance on income taxes for the lower and middle income families.

4. A short-term tax on all gasoline, as gasoline prices are falling, would be more efficient than an oil import tax (i.e., less inefficiency in allocation of resources.) A tax on alcoholic beverages and cigarettes would also be efficient because of the high inelasticity of demand.

In closing, let me emphasize that we should recognize that we are one nation—that we are first and foremost citizens of the United States of America. We are not a loose federation of states. This was settled back in 1789 when our forefathers gave up the Articles of Confederation and adopted our Constitution. Consequently, the national government should deal with problems that are national in scope. When the national government abdicates this responsibility, difficulties arise from competition among our 50 states and many cities as to which area can assume the least of the goal of having tax rates lower in one area than in other areas to try to attract businessmen seeking minimum taxes often takes precedence over efficient performance of the responsibilities turned over to the States and cities.

I don't have to tell congressional leaders such as you that we are adrift in a sea of ambivalence of the general population who fear the deficit yet aren't sure that raising their taxes is necessary, who fear the tax changes will not be fair to the middle class or poor, who worry about recession and even greater numbers of workers being laid off, who want strong national defense but fear inefficiencies in military expenditures and question throwing ever increasing dollars at the Pentagon and cost-plus contractors.

Your responsibility to keep a sane, balanced approach to complex situations is awesome. Responsible leadership in these matters is what you strive for, and we applaud. Barnum probably would say it is time to quit trying to substitute posturing for leadership. Politicians who forget their responsibilities may play a game of "chicken" to try to gain short run political position. Or they may cynically argue that all that matters is putting together a package that can be passed on Congress and not vetoed. I have more faith in the voting public's ability to understand and care. Isn't it time to quit talking about a revenue-neutral tax reform, and a fiscal policy of a balanced budget or deficit reduction with no increase in taxes?

Isn't it time to quit saying "no tax increases for unnecessary expenditures?" This is obvious.

Isn't it time to talk about tax increases for needed government services when the benefits exceed the costs?

Thank you.

Mr. **Frost**. Thank you.

We will, at this point, have questions that will be addressed to all the last five witnesses.

And, Mr. Pitts, if you could come up to the table and bring your chair with you.

We are under the 5-minute rule, and we have quite a few more witnesses to hear, so that I would ask members to keep their questions as brief as possible. I will recognize members of the Budget Committee who are here first, and then I'm going to recognize members up at the table who did not have a chance to ask questions to the Governor.

So, first, I will recognize the majority leader, Congressman Wright from Fort Worth.

Mr. **Wright**. Thank you very much, Mr. Chairman. I join you in welcoming each of these very distinguished witnesses.

I have heard that those whom I've heard testimony seem to be of one accord in recognizing that there isn't any reasonable expectation of balancing the budget short of replacing some of the revenues that have been lost to the Government through tax cuts that have gone into effect in the last 2 or 3 years.

I notice particularly in your testimony several of you have recognized a desirability for a fee on imported oil and refined petroleum products.

And, Mr. Love, you, in your testimony, suggested as a first justification for the fee that it would provide a new revenue source to help reduce the Federal budget deficit.

Do any of you see any logic or any sense at all in considering that fee only in the context of a revenue neutral tax rearrangement bill that won't do anything at all for the deficit? Does that make sense to any of you?

Mr. **Frost**. Mr. Love, or any of the others that wish to comment.

Mr. **Love**. Well, Congressman Wright, the size of the budget deficits are such that the import fee would make only one step, maybe akin to a tip that you would leave on a table after a dinner. But we are confronted with roughly $200 billion, again, of budget deficit.

The estimates are that the import fee on foreign crude, whether under the Bentsen bill or under the variety of scenarios that we could examine, would contribute from, say, $10 billion up to a ceiling, maybe, of $18 billion in that budget deficit reduction.

Whether it would be $5, $10, or $15 billion, I think that the most serious long-term problem the Nation faces is the sword of Damocles that we continue to have poised over our economic necks in the form of the budget deficit.

I think the import fee, as others have testified, has a dual advantage, and those three or four advantages I've attempted to identify.

Mr. **Wright**. Dr. Reagan, you have suggested as one alternative a graduated minimum tax on high-income individuals and corporations. And, I think, you've been somewhat specific in saying that it doesn't make a lot of sense to think of these in terms of a revenue-neutral approach, but rather, the proceeds of such a tax ought to be contributed to the budget deficit reduction in order to relieve the pressures on some of the other areas that were considered. Do you agree with that?

Ms. **Reagan**. Absolutely.

Mr. **Wright**. I think it's significant, Mr. Chairman, that the Opinion Research Corp., in Princeton, NJ, very recently conducted a nationwide poll in which they asked the following question.

The question was: Which do you believe is more important to the economic well-being of the country as a whole, reducing the Federal deficit and then balance the budget, or reducing the amount of Federal income taxes? Reducing the deficit was the choice by an overwhelming majority, 59 to 31.

The second question was more specific: What should Congress do with the billions of dollars that can be raised by closing some of the Federal income tax loopholes? Give most Americans an income tax cut of about $200, or reduce the Federal deficit by the billions that could be raised? And there, the difference was even more profound.

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Cut the deficit, 68 percent; give tax cuts, only 22 percent. By a margin of better than 3 to 1, the public seems to recognize that the priority has to be deficit reduction and that you're not going to get there unless the administration is willing to consider some of these revenue measures in that context.

Now, in that specific connection, it is my understanding, though I may be misattributing an opinion to the President or to other Presidential advisors, that they now have reached a point of saying they would be willing to consider the possibility of an import fee on foreign oil, but only if it were considered in connection with a revenue-neutral bill that didn't do anything to help the deficit.

Is there any of you there who would think that would be a sensible approach?

Mr. **Pitts**. Congressman Wright, whether it be for that or to apply directly to the deficit, in my judgment, it should be done, as I outlined in my testimony.

Mr. **Frost**. Time has expired, and I would call on Congressman Boulter.

Mr. **Boulter**. Thank you, Mr. Chairman.

Just to give some balance for the benefit of the witnesses to what our distinguished majority leader from Texas has said, there are many of us, mostly on my side of the aisle, the Republican side, who do not agree with the assumption that the deficits have been caused by the 1981 tax cuts. And I do think there is some evidence to support our position.

With the creation of 10 million jobs since 1981, in the private sector economy and with revenues actually increasing 11 percent per year over the last 2 fiscal years, I view the problem as one of spending, and that's demonstrated further by the fact that spending has increased by over 12 percent over the same period.

It is my assumption, in fact, that those who call for tax increases do not want to alter, in any fundamental sense, the spending behavior of the Congress. I'm hoping that there's someone among the witnesses who would argue that, in fact, we can make certain reforms in the way we spend money in the Congress, that there are some programs that should be terminated and others that should be reformed, and that we need to prioritize our spending, as Governor White said, before we even consider any tax increase.

Is there anyone that would agree with that approach to solving the deficit? Mr. Love?

Mr. **Frost**. Excuse me. I'll recognize the witnesses, both Mr. Love and Dr. Reagan. I wanted to recognize Mr. Love and then Dr. Reagan.

Mr. **Love**. Thank you.

I certainly would agree, as responsive to Congressman Wright's question, the oil import fee, which would serve four purposes, not one of which is the reduction in budget deficit, only goes a short distance toward closing that—$10 billion against the $200 billion deficit. Therefore, my position would be, yes, that we must have further cuts.

Mr. **Frost**. Dr. Reagan?

Ms. **Reagan**. I think that my testimony has tried to address this problem in that I think each and every expenditure must be examined to see whether the benefits exceed the costs for any increases in expenditures. I think that the question of equity has to be looked at. I think the growth and stabilization issues have to be looked at.

I don't think that we are at a point where we can assume that all cuts to balance the budget are going to come from just cutting expenditures.

Now, Governor White put it very nicely in saying, yes, we must look at these things first and then, if necessary, increase taxes.

What I'm suggesting to you is that we're really there. We're really at a time when, as you do fine tuning, as you look at needed expenditures, you must consider that the benefits of some of these expenditures exceed their costs, and if the American people and you as their representatives, feel that these are necessary expenditures, then look at increasing taxes to make it possible. I think that's where we are.

Mr. **Boulter**. Thank you, Dr. Reagan.

For me, this issue of an oil import fee has not been an easy issue, and, as Mr. Pitts in particular might know, up in my district, my oil and gas constituency is very, very, very divided. Those in Wichita Falls seem to be in favor of it, and those in the Panhandle area seem to be against it.

I'd like to ask you, Mr. Pitts, how would you answer some of the criticism of an oil import fee. We hear from IPAA that we would have a tax on domestic crude, that the rebates would wipe out too much revenue, that to still have the revenue we would need to not exempt Mexico or Canada. And if you don't exempt them, that puts their economy and our banking system here in jeopardy. How do you answer that kind of criticism?

Mr. **Pitts**. I don't believe I know the answer to your question. It's a difficult question.

My own opinion, whether it's right or wrong, is that you have to treat them and should treat them all alike as importers into our country.

Mr. **Frost**. At this point, I think we're going to go to two more members who have not had a chance to ask questions of our witnesses, and then we'll go to the next panel. I'd like to recognize Congressman Chapman.

Mr. **Chapman**. Thank you, Mr. Chairman.

And let me direct, if I may, your attention to putting in context what you have all said today in your testimony with the budget that the Congress received last week from the President of the United States.

If we are to make those difficult choices in Congress as representatives of the American people and in attempting to determine what are the correct priorities, I would like those of you that would like an opportunity to comment on it to ask you, in light of the fact that it seems in the energy area that the administration of the President's budget is—as the chairman of the Railroad Commission has pointed out, has moved away from a policy of going for energy independence. In fact, the President's budget in the energy area terminates the strategic petroleum reserve. It stops Federal funding for low-income weatherization programs. It terminates the school and hospital energy conservation grant program. It terminates the State energy planning grant programs. In the electrification area, it terminates all REA lending programs. And it terminates the solar energy and energy conservation bank. In reductions—those programs are ended. In major reductions in the area of research and development, the President's budget proposes to make a 50-percent reduction in R&D for solar energy; energy conservation research and development, a 58-percent reduction; fossil fuel energy research and development, a 76-percent reduction in research; electric storage and systems research and development, a 45-percent reduction; and geothermal energy R&D, a 33-percent reduction. And then, there are others that are not listed here.

This, at the same time that research and development—not building one single thing, but research and development in Star Wars is increased from $2.4 billion this year to $4.4 billion fiscal year 1987.

I would like to hear those of you comment, if you would, on whether or not energy independence is still a goal and an objective that we should be working toward and how you would use this budget as accomplishing that goal if, in fact, you think it's worthwhile.

Mr. Frost. If any of you would like to—Chairman Wallace, did you want to say anything on that?

Mr. Wallace. The reductions in the budget that he mentioned, and I chose the one, for brevity, in the insulation program. As you fail—or, you choose not to insulate your home, that calls for increased natural gas and increased crude oil. At the same time, the administration abandonment of energy self-sufficiency will tell you that crude oil must come from imports.

If we kill our domestic industry, those homes that are not insulated would, of necessity, have to be heated with foreign fuel.

Each one of those bears the same discussion that you've mentioned.

Mr. Frost. Any of the others that wish to express opinion on that? Mr. Montgomery?

Mr. Montgomery. One of the real problems here is to keep your eye on the ball and the long run and, as I said in my statement, think about the 30-year type planning. And when you start taking these programs away now, maybe the economists for the administration have told them that we're going to have cheap oil and we can do without long-term planning.

We have an infrastructure which I tried to speak to which took a long time to put into place. You can destroy it very quickly, and you have to take a long time to build it back up. That's why the import fee is so necessary at this time to preserve the infrastructure.

The Europeans lowered their coal prices, also. We could have a coal industry here in this country that's totally out of business, as well as the other industries. It's probably not the time to cut tax benefits because if you cut it now you're going to inherit the problem with it.

Mr. Frost. Mr. Pitts.

Mr. Pitts. I would like to say this, that I am afraid that many of us in this country don't appreciate the importance of energy and how it has helped us to become the great industrial power that we have become.

We have only roughly 6 percent of the population of the world. Yet, we consume approximately 30 percent of the energy consumed in the world.

I am of the opinion that some day oil and natural gas, which now is supplying roughly 70 percent of our total energy usage in this country, will no longer exist. Therefore, in my judgment, it behooves us to continue to seek other types of energy that can replace oil and gas and other forms of energy that we, in turn, are using.

Mr. FROST. Thank you very much.

Congressman Armey, you're recognized for 5 minutes.

Mr. ARMEY. Thank you, Mr. Chairman.

I'd like to address that question to the panel. Congressman Chapman just reeled off a fairly long list of categorical grants. I would probably want to add synthetic fuels to that area. Let me ask if there's anybody that would like to express your desire along the lines that Dr. Reagan was talking about; that is, tradeoff positions for eliminating or reducing various categorical grants or continuing our chronic budgets, or would you further increase taxes on the American people. Which of those three would you think would be the best direction in which to go?

Mr. FROST. Mr. Love.

Mr. LOVE. I think, returning to Congressman Boulter's question of a moment ago: Do we, indeed, have to take just one of those three, or can we simultaneously not enhance revenue or whatever delightful term we want to employ for that while, at the same moment, curbing our costs?

Mr. ARMEY. I appreciate that, and certainly that's an avenue for some combination of all three.

Let me address another matter. The question of an oil import fee is a real puzzle for me. I don't know whether we have a panacea or a can of worms here. I think we need to study it.

I, quite frankly, believe that if we begin the process of developing an oil import fee, the first thing we're going to see is the need—a need felt very strongly here in Texas—for a rebate to our petrochemical industry. Otherwise they will face a destruction of their exporting power adversely affecting a balanced trade.

I also believe we'll hear it argued that we need some sort of exemption or rebate for home heating fuel.

Then I think we're going to run into a very serious problem with respect to the banking community regarding the Mexican oil industry and a requirement that we have exceptions there.

And going further on down the line, if we make exceptions for Mexico, I suspect we'll be required to make exceptions for Canada.

Now, once we have all this packaged together, which is probably the package we would get, it's very clear to me we're going to have a real problem getting that package to do the two things we hope to do, raise revenues on one hand which we can do only if we don't reduce imports or reduce imports and protect our domestic exploration and our domestic industry. We're not going to get both results.

Now, that whole approach bothers me, and Dr. Reagan, I'd like your reaction to this. It bothers me because it is fundamentally protectionist. And I continue to remind myself, even when I'm tempted as this one tempts me so greatly, that absent significant benefit this is the sort of economics they warn us against, protectionist.

Now, wouldn't there be a possible combination that could take a different approach, a combination of things like repealing the windfall profits tax which is probably the dumbest thing we ever did to the oil industry. We could lift restrictions on the export of our own Alaskan crude which we imposed during the days of national malaise, repeal the CAFE standards on American domestic automobiles which has inhibited their ability to compete with foreign imports, and something we in Texas would probably all agree to, repeal the 55-mile-an hour speed limit.

Now, couldn't we take a combination like that and come out with a better combination of savings and protection?

Mr. **Frost**. Congressman Armey has taken his 5 minutes with his question. Does anyone care to try an respond to it very briefly?

Mr. **Wallace**. I would respond to such of it as I was able to understand. What it sounds like is a suggestion that we try to rearrange the chairs on the deck of the Titanic.

Now, I'll address the last, the equitable issue first. The one conceivable thing we could do in the world oil situation as it is, start exporting oil from Alaska to Japan. In the time of a crunch should we have to invoke the International Energy Agency Treaty and share our production everywhere and cut Japan off, we might lose an ally over that.

If we are going to be a competitor in this world and conduct a foreign policy, I remind you that 75 percent of the crude oil produced in the world is produced by governments and not oil companies.

And as Mr. Montgomery pointed out, the French reduced the price of coal in order to keep their industry competitive.

If we are unable to—if we are unable to stabilize an industry where we have a 75–25 percentage break, Government toward private industry, we're going to sink the ship while we——

Mr. **Frost**. I'm sorry, time has expired.

We do have the next panel, which is on safety which is of vital concern to this immediate area. I'm trying to extend an equal amount of time to both sides, and I sure would appreciate cooperation in that matter.

I want to thank this panel. This has been very interesting. This is a major issue that this Budget Committee is going to have to deal with, and it certainly affects our standards, and we thank you very much for your testimony.

And if we could have the panel on the FAA budget on air safety, please, all come to the table at this point. Congressman Oberstar, Alan Stephen, Capt. Melvin Hoagland, and Dr. Robert Serafin.

[Pause.]

Mr. **Frost**. If we could begin, as I indicated just a moment ago, air safety and the FAA's budget is a vital concern to this area in Texas in that there was a crash, as everyone knows, a Delta flight crash at D/FW Airport, a very significant loss of life. There has been major press coverage in this area of what's being done in the field of air safety, and so, we have asked these witnesses to examine the President's budget on the subject and to give us the benefit of their testimony.

And we would begin with our colleague, James Oberstar, General Oberstar, who is chairman of the Public Works Subcommittee on Investigations and Oversight, and has devoted a great deal of his own personal attention to this very important subject.

Congressman Oberstar, we're privileged to have you with us.

STATEMENT OF HON. JAMES OBERSTAR, CHAIRMAN, SUBCOMMITTEE ON INVESTIGATIONS AND OVERSIGHT OF THE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

Mr. **Oberstar**. Thank you, Mr. Chairman, Mr. Majority Leader. I'm here on behalf of the Committee on Public Works and Transportation.

I would like to add a comment about the other aspects of the budget proposal that impact on general jurisdiction of our committee.

The President's proposed budget would cut some $12 billion out of infrastructure investment in several areas, including the Corps of Engineers, the Federal highway program, the Urban Mass Transit Administration, Environmental Protection Agency construction grants, corps programs, and the Economic Development Administration, which would result, by our calculations, in a loss of some 396,000 jobs directly, not counting the indirect jobs, and a payout of some $8 billion in unemployment compensation costs to those people who would lose employment as a result of those budget cuts.

We think that doesn't make a whole lot of sense, to cut investments that are necessary to make the public sector productive and then have to turn around and pay those people unemployment benefits because we just put them out of work.

About the only thing we can say with any degree of certainty about the administration's budget on aviation safety is that the future is unclear. Two reasons: One, the decision last week about the future of Gramm-Rudman in the Federal court case; and, second, because we still don't have the specifics of the Federal Aviation Administration's budget figures and won't have them until March.

But from what we know so far, I feel slightly encouraged that the administration has made a gesture in the direction of air safety with the Secretary of Transportation's comment that air safety has been insulated from the Deficit Control Act.

Last week, the Administrator of FAA, Donald Engen, said that the FAA and the Department would be responsive to the provisions of Gramm-Rudman without endangering aviation safety.

I hope that will be the case. The figures don't give much encouragement so far.

The inquiry that our subcommittee has conducted over the past 3 years results in a very shocking conclusion, and that is that the margin of safety is diminishing in aviation at the very time, in a deregulated environment, it needs to be improving.

We have to consider what will be the effects of safety produced by this budget. And as FAA operations are reduced in order to cut costs and reduce the deficit, the air traffic control system has been undergoing a rebuilding effort since the PATCO strike of 1981 when some 11,000 of the Nation's air traffic controllers walked out and were subsequently fired by the President.

We then had about 16,000 controllers. Today we have less than 14,000 controllers and 10 percent more air traffic. Of the 16,000, we had 13,200 who were full-performance level controllers in 1981. Today, 8,000 are full-performance level controllers, not sufficient to keep that system operating at the level that we think is necessary for air safety.

The system has been working, but it has been working because the FAA has used massive amounts of overtime. The air traffic control sector in New Jersey, for example, requires employees to work 11 days in every 10-day pay period. All employees are required and assigned to work overtime. That puts stress on air traffic controllers and on their ability to perform efficiently.

Second, the FAA has been using supervisors to work radar positions in many of the sectors throughout the country.

Third, they are limiting the use of annual leave and in some cases limiting the use of sick leave, which, in turn, has further increased stress on air controllers.

Finally, the system has been working simply because there's been a superhuman effort made by those who remained in the system after the strike or those who were called back from retirement and who have worked with a high degree of enthusiasm and effort to make our air traffic control system as safe as possible. But they, now, have reached the limit of their ability to continue at that high level of performance.

A related problem of air traffic control is the aging equipment used in our air traffic control centers, increasing the possibility of breakdowns and the increase in cost of maintenance.

At the same time, the workforce responsible for maintaining the equipment is itself decreasing. A large number of maintenance employees will be eligible for retirement, taking with them invaluable experience.

And that problem is further compounded when you realize that there are not enough, certainly by no means an adequate number of young employees in the FAA system to replace those who are retiring.

And worse, they are facing the problem of the tax bill, which I'll discuss later, that is going to drive even more workers out of the FAA system.

The concern of our subcommittee is the ability of the FAA inspection force to monitor training, operations, and maintenance of the Nation's air carriers and their fleets. The problem has increased in significance in the deregulated environment.

We have 35,000 more aircraft flying today than we had in 1978 when airline deregulation was enacted. We have had up to 40 percent fewer inspectors to monitor that increase in aviation equipment.

The problem, of course, was magnified by former FAA Administrator Lynn Helms who, in cutting the aviation inspection force, said, "We can do more with less." Well, we've proven through sad experience not only can we do more with less, it is dangerous to attempt to do so. Congress is now restoring funds for aviation inspection, but the present budget endangers that rebuilding.

Another point of concern about FAA programs is that of cabin safety. Under the leadership of then-chairman of this subcommittee, Jim Wright, now our majority leader, the first public awareness was brought to the fore in 1975 by hearings on aviation cabin safety. It's now getting the attention within the agency that it deserves and the attention among the public that it needs.

What we have learned is that we need improved systems to disseminate information to crews and passengers to provide for rapid evacuation of aircraft in case of accident.

Furthermore, in the most critical area of aviation safety, dissemination of information to flight crews and controllers, we need new systems, such as terminal Doppler radar, a NEXRAD the next generation radar system, LORAN C, and microwave landing system equipment, all of which would be endangered by budget cuts that strike at the heart of safety.

The air traffic control system continues to be in jeopardy because we do not have adequate numbers of controllers. The budget has not provided for an adequate increase in controllers, even though Congress has mandated a certain level to be achieved by this year, 14,860 controllers.

It takes time to bring people on board. There's a 50-percent fallout among those who go through the training program of the FAA in their academy in Oklahoma. And among those who graduate from the academy and then enter the system for further training, there's another one-third fallout. This means that we have to accelerate and intensify this effort to rebuild a system of bringing additional controllers on board that the present budget will not supply adequately for.

What disturbs me, as the chairman of the Subcommittee on Investigations and Oversight, is that the FAA is drawing down on the airport trust fund in order to finance operations. There's some $8 billion in the airport and airway development fund. The proposed budget would take $2.1 billion, of its $2.8 billion request for operations, out of the airport and airways trust fund.

Now, that is drawing down the funds that we've established for airport development for infrastructure, breaking faith with the air traveling public by using funds that were intended for one purpose to offset in another area the budget deficit.

We think that is shortsighted and dangerous and it is going to cause serious problems in the future as the ADAP funds run short.

Finally, if the Gramm-Rudman budget deficit cutback goes into effect in fiscal year 1987, without action by Congress, and 20 percent reductions were to occur, it would not simply mean cutting $1 out of every $15 of FAA. It would mean more than a 20-percent cut because much of FAA's budget is tied up in personnel. The fixed costs would have to be met. The only place the cuts could come is in personnel, and we would see as much as a 50-percent cut in FAA personnel. That would mean widespread layoffs of skilled technicians that we just spent hundreds of millions of dollars training to bring into the system.

People will be cut because the FAA is locked into paying other costs, such as electricity, equipment, maintenance.

And the consequences, as I have talked with people in center after center and in tower after tower, is that to protect the air-traveling public, the Nation's airflow will have to be slowed down with massive economic consequences all across this country.

And finally, of very profound concern to the FAA is the impact of the recently passed tax bill that will begin taxing retirement benefits immediately upon retirement. I have heard from dozens of senior, most experienced, seasoned controllers, managers, inspectors their desire to get out of the system if that's a new tax rule. That means we'll lose the most experienced and the most seasoned of our aviation safety personnel.

Of the 8,000 full-performance level controllers, some 1,500 to 2,000 are already indicating their intention to retire. Another 1,500 or so will probably get out simply because of the tax bill.

If you add up the Gramm-Rudman cuts, the tax bill and the effect of the President's proposed budget, we can see a seriously endangered air traffic system in this country in the very near future.

Mr. **Frost**. Congressman Bartlett is going to have to leave in a few minutes, so he has asked that he be able to ask a brief question at this time. And then we'll go to Mr. Stephen next.

Congressman Bartlett.

Mr. **Bartlett**. Thank you very much, Mr. Chairman. I appreciate the time from Mr. Oberstar. This is a terribly important subject.

Let me go back to something that the other panel said, that is the need for tax increase.

The fundamental difference of opinion in Congress this year, but I don't think quite so much with the American public, is whether Congress will have the political will to set spending priorities for which Federal programs are less important than others or whether we will rush to increase taxes and therefore to avoid those choices.

In the past—between 1980 and 1985, taxes have increased from $517 to $734 billion. The problem is that aggregate spending increased by about $200 billion more.

Now, the question of aviation safety, Mr. Oberstar, I would make a couple of inquiries. I just want to clarify your comments about some of the damage that would be done in aviation safety, as I understand, were primarily directed at the damage under a sequestration order in fiscal year 1987, rather than under the President's budget, although I understand you have some disagreement with some of the things in the President's budget.

But is it your testimony that the sequestration order would cause substantially more damage than what's in this budget?

Mr. **Oberstar**. The sequestration order would cause a very severe damage, but also the—there are two problems in the President's budget. One is the substantial reduction in R&D funds for the FAA; and, second, using the airport trust fund to finance operations.

Mr. **Bartlett**. I understand. So, what we want to do, and I think what you want to do, is to avoid that sequestration order by adopting a budget with rational choices.

I want to go over quickly——

Mr. **Oberstar**. Before we'll be capable of making those choices.

Mr. **Bartlett**. I agree. I agree. And I believe that on a bipartisan level, that's what the American people expect us to do.

I want to go over some of the choices that are in the President's budget and see if you agree or disagree. And I'm just reading from the budget.

Total expenditures budget authority fiscal year 1986 going from $4.785 to $4.862 billion in 1987 and $4.981 billion in 1988. Increases in FAA.

You generally are comfortable with those level of increases, or would you lower——

Mr. **Oberstar**. The problem with using the gross numbers, Mr. Bartlett, is that gross number reflects the only increase in the FAA budget which is in the construction area.

Mr. **Bartlett**. I agree that aggregate numbers don't tell the whole picture, which, of course, is why we ought to be going through the entire budget line by line and not with the statistics.

But let me go on. The administration's proposal, as I understand it, would improve controller productivity by introducing automation, expanding the capacity of the air traffic control system to accommodate growth, and reducing the risks of weather-related accidents.

Let me be specific. As I read it, the proposed budget would enable FAA to add 500 air traffic controllers and 138 aircraft safety inspectors and intensify the inspection safety program. Do you generally agree with that?

Mr. **Oberstar**. The increase in aviation inspectors has come in—2 years ago, 156 were added by the Congress, not by the administration; 200 last year by the Congress, not in the administration budget proposed by the administration.

They finally got—they're asking for an additional number of inspectors in the upcoming budget, but remember, it takes more than 1 year to train those people. They don't come on board full grown.

Mr. **Bartlett**. It's not my purpose to pin blame. Let's all take the responsibility, and then we can all take the credit. Do you generally agree with these levels of increases, or do you think there ought to be more?

Mr. **Oberstar**. Oh, the number of air traffic controllers is grossly under what we need nationwide. And our colleague, Mr. Molinari, is very strong in pointing that out.

Mr. **Frost**. I would ask at this point that each of the next three witnesses summarize their testimony, if they can, within about 5 minutes each, and I'd call on Mr. Stephen.

STATEMENT OF ALAN R. STEPHEN, EXECUTIVE VICE PRESIDENT, REGIONAL AIRLINE ASSOCIATION

Mr. **Stephen**. Thank you very much.

I'd like to respond to Representative Bartlett. I think two points have to be made. I think you made some good points, and I want to say that Representative Oberstar, you are the chairman. I mean that sincerely. We have—sometimes we see the glass as half full and half empty, but I think we're all headed in the right direction.

The first is that Gramm-Rudman—and I'm just responding to your point—that we might agree on the priorities in aviation, indeed, transportation, but failure to accommodate all the budgets of all the agencies of the Federal Government would create sequestration.

Now, sequestration would come on top of the budget that was enacted for the Federal Avaiation Administration. So, I think that you have to remember that that's part of the fear we have of Gramm-Rudman, and I'll address that in a second.

The second is that the FAA, the department of requests, budget requests, actually had a net reduction of employees of 1,340. There'll be 1,340 less employees at the end of 1987 than there are today, and that's despite the fact that 500 more controllers and 138 more safety inspectors. That's a 2,000-man cut in the FAA.

I worked for the FAA 9 years ago. There were 10,000 more people at the FAA when I worked there than there will be at the end of 1987. That's about a 20-percent cut.

You've asked the FAA to do more. You've asked them to do a better job. And whether it's the air carriers or the Congress or the pilots or the general aviation people, it's a very difficult time for us.

And that's why—and I will summarize my statement. I appreciate it being made a part of the record—that 16 organizations came together, first time in the 15 years of my training in aviation that 16 organizations across every aspect of the aviation spectrum came together in a joint statement last week before the Senate Aviation Subcommittee to talk about Gramm-Rudman, talk about our frustrations, our frustrations that this aviation trust fund is 100 percent user funded, that it is being held hostage for the budget deficits, and the balance in it grows every year, that we have important safety and capacity programs that have been identified and agreed to, and we all agreed to user taxes, the Congress, the Administration, and aviation users.

And we come across that frustration in the 1987 budget, and this is what we find—let me just talk about a few of the elements.

Going into 1987, the continuing resolution under which FAA is funded cut $55 million out of FAA operations. The 4.3 percent cut, the Gramm-Rudman cut, will take another $210 million across all the programs, $120 million of which would come out of the personnel.

As I've pointed out, 70 percent of FAA's operation O&M cost is, in fact, personnel cost. And it's—at least, we may not be able to get all the employees and meet all these program targets that have been agreed to, we may be looking even deeper into the fact that we might have, as the Administrator has stated, we might have furloughs, agencywide furloughs that might lead to, in the name of safety, mandating restrictions on the air travel.

Over 1½ million people a day travel by air. I can tell you, having lived through the controllers strike and schedule adjustments and givebacks and deadlocks and all the rest—and the high-density airport, that the only result is that the air-traveling public is faced with frustration in connection with such circumstances.

So, no, we don't want to go into a Gramm-Rudman sequestration. But we're starting 1986 approximately $260 million in the hole from where we started in the operation side alone.

In 1987, we have a budget request for facilities and equipment. That's the money that's used to fund the modernization—the $11.4

billion modernization program for the air traffic control system/air navigation system. That request is for $825 million. That's $300 million below the authorization level in the 1980 draft creating the trust fund, and it's $1½ billion short when you look at the aggregate shortfall since 1982, $1½ billion short for the F&E Program.

And I can tell you we're delaying—last year, the Administrator testified we're at the barebones level, that if we don't keep on the track in that 1982 act we will, in fact, delay the modernization and capacity, safety improvements in the air traffic control and air navigation systems.

I also point out also as a matter of deficit reduction, according to the Congressional Budget Office and the Office of Technology Assessment, that modernization program over the long term will save $20 billion in operation cost because of being able to create productivity and closing unnecessary and outdated facilities. So, it's part of our deficit reduction.

In the area of airport improvement programs, the authorization—excuse me, the budget requests $712 million. That is $300 million below the authorized level in the 1982 act, and that comes on top of the fact that we're $360 million short in this program accumulated so that at the end of 1987 we'd be over $600 million short.

I can tell you what that's going to do. The cut of $300 million will mean that the FAA will lose its discretionary powers to fund programs over and above the embodiments that were written into the act.

And I also can say that having a modernization of the air traffic control system function is very important because you have to have the runways and taxiways to accommodate the traffic, and if you cut on the area of runways, it doesn't make any difference how much capacity you have.

So, both of these programs must move together.

And finally, in the area of facilities and equipment—oh, excuse me, in the area of research, engineering, and design, the cuts would be 3 percent from the authorized level to approximately $134 million out of—instead of $193 million. This area affects, I know, areas that you want to hear about specifically, NEXRAD, Terminal Doppler, and other important programs.

I can say that by taking cuts in this area today, we will regret those cuts tomorrow. So, this is the money that's used for the engineering and for the hardware development that will come on line in 1989, 1990, 1995 timeframe and achieve the kinds of programs that we must have for aviation safety.

So, I have a very simple request for you. I urge the Budget Committee to—in the budget resolution to assume the levels of authorization that are in the 1982 act: $1,017 million for airports; $1,134 million for facilities and equipment; $193 million for research, engineering, and design; and $1,363 million for FAA operations.

And even if you do that, the trust fund is so whole—the user funded trust fund, that our trust fund balance—the unaggregated balance, assuming the full payment for all these programs will be $4½ billion again in 1987. It's $3.3 billion today.

Thank you very much for your interest, and I'll be happy to answer any questions.

[Testimony resumes on p. 562.]
[The prepared statement of Mr. Stephen follows:]

PREPARED STATEMENT OF ALAN R. STEPHEN

I am Alan R. Stephen, Executive Vice President of the Regional Airline Association (RAA), a Washington, D.C., based organization which represents regional and commuter air carriers. On behalf of our member airlines, I appreciate this opportunity to appear here today to discuss our very serious concern that proposed reductions in the 1987 budget of the Federal Aviation Administration may seriously impair National Aviation System safety, efficiency and capacity.

Last week, sixteen organizations representing diverse aviation interests including airlines, airports, state aviation organizations, pilots and manufacturers, came together in an extraordinary joint statement to the Senate Aviation Subcommittee in hearings dealing with the impact of Gramm-Rudman-Hollings on airport and airway programs. We cited the frustrating inequity of the current situation... the combination of a large Aviation Trust Fund surplus, unmet system development and operating needs, serious and growing shortfalls in FAA appropriations below authorized levels and aviation user tax revenues held hostage to the general fund deficit problem. Now, on top of this failure to use the Aviation Trust Fund for the purpose it was intended, we are faced with the specter of huge cuts in FAA spending, program by program, as a result of the Balanced Budget and Emergency Deficit Control Act of 1985. I would like to submit a copy of that joint statement of these sixteen aviation organizations into the record of these Hearings.

During the next few minutes, I would like to describe for you what these budget cuts may mean to our nation, its commerce and to its air travelling public. Given such impacts, we urge you to enact a Budget Resolution that will maintain vital FAA services and keep aviation system modernization on schedule.

It is not altogether clear today just how overall deficit reduction will specifically affect spending for particular FAA programs. However, we have already begun to see its general effects. The Continuing Resolution underwhich the Agency now operates cut $55 million from FAA operations and set spending for capital programs substantially below those necessary to meet current needs.

A further 4.3 percent across-the-board Gramm-Rudman mandated reduction for Fiscal Year 1986 will require FAA to cut $211 million in spending in the last seven months of the fiscal year. The reductions in FAA's Operations and Maintenance (O&M) budget, totalling $120 million, likely will constrain the Agency's ability to bring essential functions up to required staffing since approximately 70 percent of O&M expenditures are personnel related. How these cuts will be apportioned is unclear. However, the FAA Administrator has stated that employee furloughs are possible and may result in the imposition of ATC flow control and other use restrictions during the peak summer travel period.

There can be no doubt about the impact such actions will have on the travelling public:

- the 1.5 million people who use the national air transportation system each day would be confronted with intolerable inconveniences, delays, and missed travel connections...
- system capacity would necessarily shrink in order to maintain aviation safety, and
- numerous air traffic control system modernization and efficiency improvements would be deferred. This is particularly true for the smaller airports commuter airlines serve.

These cuts in 1986, however, pale in comparison to those proposed for Fiscal Year 1987. The Administration is requesting funding for essential National Aviation System modernization programs in excess of $700 million below levels authorized. Failure to meet the overall deficit ceiling of $144 billion in 1987 could, in addition, trigger automatic cuts in individual line item FAA programs, projects and activities of perhaps 20 percent or more and totalling $1.0 billion or more. If cuts of this magnitude are required, FAA's ability to carry out its statutory responsibilities would be greatly hindered.

MAINTENANCE OF ESSENTIAL FAA SAFETY PROGRAMS

The entire aviation community agrees that safety is the number one priority for the FAA. Last week, FAA Administrator Donald Engen testified that he would "draw a fence" around air traffic controllers, safety inspectors and sky marshals, programs he has designated as the FAA's highest priorities. We would agree with these choices. However, the FAA performs other important safety missions, for example certification of aircraft and related equipment, that will be cut substantially. Adequate resources must be assured to meet these and similar responsibilities as well.

AVIATION TRUST FUND

In 1982, the Regional Airline Association joined with other members of the aviation industry in supporting the FAA multi-year program to revitalize our nation's air traffic control and air navigation systems. The RAA vigorously endorsed this plan because we view airport ground and airside congestion (and with them, costly delay and diversion) as among the greatest constraints to scheduled air transportation. Our on-going experience with limited airport and airway capacity stemming from the 1981 air controllers' strike has been a sobering reminder of how difficult it is to balance free market forces, economic utilization of aircraft and community service needs when there is too little capacity to meet consumer needs.

When Congress reauthorizied the Aviation Trust Fund, it reaffirmed the pressing need to modernize and expand our nation's airport and airway system. It was clear then, as now, that significant investment in the infrastructure of this system is required if it is to accomodate the growth of aviation in a safe, efficient and timely manner.

This Trust Fund legislation represented a commitment on the part of the Administration, Congress and aviation users to undertake the far-reaching NAS Plan, with a price tag of $11.4 billion. In addition, it recognized the related need to develop our nation's airports, now estimated to cost $12 billion through 1993, according to the FAA's National Plan of Integrated Airport Systems (NPIAS).

This modernization program was to be entirely user funded through dedicated taxes paid to the Aviation Trust Fund.

Today, we are proceeding with the upgrading of the airport and airway system. Despite these programs being "pay as you go", Aviation Trust Fund expenditures are being subject to budgetary constraint.

Billions of dollars paid into the Aviation Trust Fund are not being utilized. This surplus, which is now more than $3.3 billion, is growing faster than ever before in its history. The gap between Trust Fund revenues and Trust Fund appropriations for airport and airway programs has widened during the past two years at an unprecedented rate. There has been significant underfunding of vital safety and capacity improvements, notwithstanding the fact that such expenditures are entirely supported by user taxes. The Fiscal Year 1987 budget proposals would widen this gap even further.

1987 FAA FACILITIES AND EQUIPMENT BUDGET

The Administration has requested $825 million dollars for Facilities and Equipment (F&E) expenditures for 1987.

The F&E account funds the multi-year National Airspace Modernization Plan by which air traffic control and air navigation facilities will be upgraded. Modernization ultimately will save by some estimates as much as $20 billion in long term operational costs by permitting the closing of outdated and unnecessary facilities, by replacing high maintenance equipment with new solid-state hardware and by providing ATC capacity capable of handling the volume of air traffic predicted for the 1990s.

This request for $825 million in F&E is a reduction of 29 percent from the $1.164 billion specified in the authorizing legislation. It will bring the accumulated shortfall in spending for NAS modernization to more than $1.5 billion since 1982. We are concerned that NAS modernization may be significantly delayed, thereby adding cost and denying system users sorely needed new capacity and safety enhancements now and well into the future.

Last year, the FAA was able, barely, to protect major NAS Plan projects by delaying other supporting projects that have less impact on system safety. These delayed programs are nonetheless important. This short-term budget expedient only delays improvements like the installation of precision approach aids, weather reporting equipment and air traffic surveillance radars at small community airports for which substantial needs exist now.

AIRPORT IMPROVEMENT PROGRAM

The Administration is requesting $712.5 million in 1987 to fund the Airport Improvement Program (AIP), a shortfall of approximately $305 million from the levels authorized. These cuts are being proposed on top of an $360 million accumulated shortfall in airport funding since 1982. Funding at the level requested for 1987, we believe, will cause FAA to lose important flexibility in providing meaningful discretionary grants to airports where safety and capacity projects require greater funds than can be met solely through entitlements.

Today, there is an unfunded backlog of more than $3.0 billion in airport construction grant applications on file with FAA. Many of these projects are for critical unmet safety and capacity needs that are already eligible as part of an FAA-approved, airport master plan. The Airport Improvement Program is an integral part of NAS modernization, providing one out of every three dollars of eligible airport capital financing. Underfunding of the Airport Improvement Program clearly compounds the overall problem of system capability.

FAA RESEARCH, ENGINEERING AND DESIGN PROGRAMS

Continuing progress in aviation Research, Engineering and Design (R,E&D) is also important to the future success of both airport and airway programs. The Administration is requesting $134.5 million for R,E&D in 1987, a cut of 30 percent below that in the authorizing legislation and a level of funding we believe could detrimentally affect safety programs like weather, NAS Plan implementation and projects to increase airport and airways capacity. Failure to fund such R,E&D programs now will delay the benefits of technologies and hardware for years to come.

TRUST FUND SURPLUS

The Aviation Trust Fund was set up to fund each of these capital programs even while it funded a substantial proportion of FAA operations. Unfortunately, the Trust Fund has not been used for the purpose intended. Billions lie idle as safety and capacity needs remain unmet. Yet the Administration is proposing to cut capital investment spending in the aviation system by more than $700 million in 1987 even as it proposes legislation to increase operations funding from the Trust Fund to $2.1 billion.

We urge this Committee to enact a Budget Resolution with spending assumptions for aviation programs as envisioned in the 1982 authorizing legislation, including $1.017 billion for airport improvements, $1.164 billion for NAS facilities and equipment, $193 million in aeronautical research, engineering and design and $1.363 billion for FAA operations. We can meet these spending levels within the Trust Fund income projected for 1987 and still have an unobligated surplus at the end of the fiscal year of more than $4.5 billion dollars.

The aviation community has banded together to urge Congress to exempt the Aviation Trust Fund from any statutory limitation on expenditures and net lending of the U.S. Government. The Aviation Trust Fund is not unlike the Social Security Trust Fund. Both are based on the equity of user benefits stemming from user paid premiums. What incentive will there be for other beneficiaries of federal services to shoulder their fiscal responsibilities as long as programs like the Aviation Trust Fund are subject deficit reduction efforts without regard for such equity?

Later this year, we will begin to examine new legislation to reauthorize both the Aviation Trust Fund and the taxes aviation users pay into it. Both laws are due to expire at the end of next year. The reauthorization process will provide an opportunity to explore new ways of funding the capital and operating needs of the National Aviation System. In particular, we are anxious to explore ways, for once and for all, to ensure that aviation safety, capacity and system efficiency programs in the future are freed from the inequities that have existed during the past fifteen years.

We appreciate your leadership in holding today's hearing. The FAA's budget is at an important juncture. We can chose a path that will permit our national airport and airway system keep pace with needs of the air travelling public. Or, we can chose a path that will lead to growing constraints and deterioration of services.

On behalf of the aviation industry, I urge you to enact a budget resolution that provides funding as envisioned in the 1982 legislation implementing the NAS Plan.

Thank you for your interest in the views of the Regional Airline Association. I will be most pleased to answer any questions you may have.

Mr. **Frost**. At this point, I'd like to recognize Capt. Melvin Hoagland of the Airline Pilots Association. Captain Hoagland?

STATEMENT OF CAPT. MELVIN HOAGLAND, AIR LINE PILOTS ASSOCIATION

Mr. **Hoagland**. Thank you, Mr. Chairman and members of the committee.

My testimony and the testimony submitted for the record is on behalf of some 34,000 ALPA airline pilots who fly for 49 airlines. The Airline Pilots Association sincerely appreciates the opportunity to comment on the impact that the 1987 budget proposal put forth by the President will have on air safety and also to comment on the need to develop more effective weather radar systems.

Before commenting on those specific items, allow me to provide a brief assessment, our assessment, of the present state of our air transportation system from a safety perspective. I believe this is necessary to fully appreciate our comments concerning the effect of potential budget cuts.

As we all know, last year was a record year for commercial aviation. Unfortunately, it was the wrong kind of record, and we certainly do not want to repeat it in 1986.

What happened last year? Did anything change to make the air transportation system in this country less safe, and what does that portend for us in 1986 and the years ahead?

Now, some good news. Despite widespread public misunderstanding of what has happened, the sky isn't falling. As we have patiently explained to anyone who would listen, the spate of accidents in 1985 was not caused by any drastic changes in the level of safety for commercial air transport.

These accidents resulted from safety problems that have been around for quite a while. The fact that few accidents occurred in 1984 and so many happened the next year is probably a statistical fluke. In 1986, we could repeat the catastrophic 12-month period just ended, or revert to the safer period of record of 1984. The odds for either are almost unchanged from before.

With the exception of the word "almost," which I'll get to in a moment, we can take some measure of comfort from the fact that the air transportation system isn't suddenly coming apart at the seams. Flying on a scheduled U.S. airline is still the safest way to get from point A to point B.

The bad news, as I noted, is the outlook for aviation safety conditions in 1986 will be almost unchanged from 1985, meaning that we are not facing a sudden, catastrophic failure in the safety regulatory system.

What we are facing is a slower, but potentially more serious, erosion of the entire safety system, which started in 1978 and continues today. We see two primary causes for this erosion, both byproducts of airline deregulation.

The rationale is simple. Safety costs money. In the fiercely competitive atmosphere spawned by deregulation, airline managers are forced to make tough decisions on safety expenditures. And all too often, safety is losing out to cost cutting. Not everywhere nor every time, but enough to cause us concern.

Now, that doesn't necessarily mean that airlines are violating safety regulations. Willful violations by unscrupulous carriers may be on the rise, but that's only part of the problem. Carriers do not have to break the rules to make cost-saving safety cuts.

The second cause of the current erosion of safety standards is probably the more important of the two, at least from the perspective of this hearing. This results in the unwillingness of some in Government to recognize that deregulation has costs associated with it. Example, the costs required to provide the FAA the means to keep up with a rapidly expanding industry.

To its credit, the FAA is making a valiant effort to keep the system safe, but it can't do that with its current resources. The number of airlines has gone up 122 percent since 1979, while the number of FAA inspectors has fallen 40 percent, and the number of controllers is still between 1,000 and 2,000 less than in 1981.

Even with the recent authorization to hire some 138 additional inspectors, the FAA won't be able to fulfill its inspection, operational and enforcement responsibilities.

The special FAA white glove inspections in 1984 and the special emphasis placed on maintenance inspection in 1985 were appropriate actions, and we welcomed them.

However, both these efforts confirm what we and others have been saying all along. The FAA cannot do the job properly on a routine, day-to-day basis with its current manpower and budget. This assessment is supported by the Memorandum on Evaluation of National Air Transportation Inspection Program Reports issued last April by the FAA.

Slowly but surely, the combined effects of cost competition, explosive growth, increasing air traffic, and the FAA's inability to cope are pushing us in the wrong direction. We're not reaching for the panic button yet, but if the trend is not reversed, we may have no alternative.

In our statement submitted for the record, we described programs, projects, and activities which are currently underway within the FAA.

In our opinion, many of these are underfunded today for a number of reasons. One, funds which are collected through taxes paid by passengers who purchase tickets or taxes on aviation fuel paid by general aviation aircraft operators are not made available to the FAA for their intended purposes.

This situation, which has developed over the past several years, seriously compromises the basic intent of the aviation trust fund. This intent, as you know, is to fund necessary safety programs for our air transportation system.

Now, in spite of the fact that the President has proposed an increase in funding for FAA operations, we are still facing further reductions in the ability to access this trust fund for needed moneys to complete vital safety programs, programs which require additional dollars for research and development as well as funds for new facilities and equipment.

To us, this amounts to a basic breach of faith between those who pay taxes intended to fund safety improvements and those in Government who approve budgets or appropriate funds.

You indicated in your invitation that you were interested in our views on more effective weather radar systems. Although industry interest in this subject was stimulated by the recent tragic accident here in Dallas, windshear and microbursts are not new phenomena. ALPA realizes there is much to learn about the nature of microbursts and, therefore, cannot propose any particular recovery technique once an aircraft penetrates a microburst.

What we do know is that extensive research is needed on this subject, for until we develop fail-safe detection techniques, pilots, controllers, and others in aviation must know what they're up against and how best to react to it.

Research on microburst and windshear is currently underway, as well as research on optimal aircraft trajectories in microbursts. This work must be funded so it can continue.

Much has been said about the next generation radar technology—that is the NEXRAD program the Congressman referred to—and its application to aviation weather. And we fully support this worthwhile program.

It should be understood, however, that NEXRAD, as presently proposed, fulfills only a part of the need of the aviation user. The new technologies it brings to weather surveillance, such as Doppler radar, although a significant improvement over the existing Weather Service radar systems, are limited to the en route structure of the air transport system. If we hope to use this technology to detect windshears and microbursts, it must also be able to perform in the terminal environment where these hazards are the most dangerous. The obvious, and most promising, program for such an application is the terminal Doppler radar, a necessary extension of the NEXRAD technology. If we hope to mitigate the dangers of windshear and the microburst to the aviation community, it must receive the same priority as the overall NEXRAD program.

However, at its current level of development, the Doppler technique will not be able to provide consistent and reliable detection capabilities in the dynamic environment of terminal operations.

We, consequently, encourage an intense and accelerated research program with focus on the development of the terminal Doppler radar system.

Likewise, it is imperative that concurrent funding be made available for an equally aggressive program for research and development of airborne sensors capable of detecting windshear in the immediate vicinity ahead of the aircraft. In this way, state-of-the-art detection capabilities will not be limited to a few, select airports, and the public will be provided with the highest possible level of safety. Various promising techniques—or, technologies are currently under development for such equipment, and these activities must be continued and expanded.

Finally, any solution to the windshear problem will rely heavily on how effective we are in passing weather information to the pilot. This issue has been addressed many times before, yet we continue to have accidents where the lack of timely weather dissemination was a factor. The industry is guilty of underutilizing even the present weather radar systems and is grossly inefficient in dissemination techniques. All the data in the world cannot help the pilot if he receives it too late.

Thank you for the opportunity to appear before you today, and I will answer any questions you may have.

[Testimony resumes on p. 576.]

[The prepared statement of Mr. Hoagland follows:]

PREPARED STATEMENT OF CAPT. MELVIN HOAGLAND

Mr. Chairman and members of the subcommittee, I am Captain Melvin Hoagland of the Air Line Pilots Association. I am testifying on behalf of the 34,000 ALPA members who fly for 49 airlines. We appreciate the opportunity to comment on the impact that the 1987 budget proposal put forth by President Reagan will have on air safety and the need to develop more effective weather radar systems.

Before commenting on those specific items, I would like to provide a brief assessment of the present state of our air transportation system from a safety perspective. I believe this is necessary in order to fully appreciate our comments concerning the effect of potential budget cuts.

Last year was a record year for commercial aviation. Unfortunately, it was the wrong kind of record, one that we certainly do not want to repeat in 1986.

What happened? Did anything change in the past year to make the air transportation system in this country less safe, and what does that portend for us in 1986 and the years ahead?

First, the good news. Despite widespread public misunderstanding of what has happened, the sky isn't falling. We have patiently explained to anyone who would listen that the spate of accidents in 1985 was not caused by any drastic changes in the level of safety for commercial air transport.

These accidents resulted from safety problems that have been around for quite a while. The fact that few accidents occurred in 1984 and so many happened in 1985 was a statistical fluke. In 1986 we could repeat the catastrophic 12-month period just ended, or revert to the safe record of 1984. The odds for either are "almost" unchanged from before.

With the exception of the word "almost", which I'll get to in a moment, we can take some measure of comfort from the fact that, the air transport system isn't suddenly coming apart at the seams. Flying on a U.S. scheduled airline still is the safest way to get from Point A to Point B.

Now comes the bad news. Earlier I said that the outlook for aviation safety conditions in 1986 will be almost unchanged from 1985. By that I meant that we are not facing a sudden, catastrophic failure in the safety regulatory system.

What we are facing is a slower but potentially more serious erosion of the entire safety system, which started in 1978 and will continue through 1986 and beyond. There are two primary causes for this erosion and both are by-products of airline deregulation.

The rationale is simple. First, safety costs money, and price competition means that airline managers are being forced to make tough decisions on safety expenditures. All too often, safety is losing out to cost cutting. Not everywhere or every time, but enough to cause concern.

That doesn't mean that airlines necessarily are violating safety regulations. Willful violations by unscrupulous carriers appear to be on the rise, but that's only part of the problem.

Carriers do not have to break the rules to make cost-saving safety cuts.

Now to the second cause of the current erosion to safety standards which is probably the more important of the two from the perspective of this hearing. This cause is the unwillingness of some in government to recognise that deregulation has costs associated with it. These are the costs required to provide the FAA the means to keep up with a rapidly expanding industry.

To its credit, the FAA is making an earnest effort to keep the system safe; but it can't do that with its current resources. The number of airlines has gone up 122 percent since 1979, while the number of FAA inspectors has fallen 30 percent. Even with the recent authorization to hire 200 additional inspectors, the FAA won't be able to fulfill all its inspection and enforcement responsibilities.

The special FAA "white glove" inspections in 1984 and the special emphasis placed on maintenance inspections in 1986 were appropriate actions and we welcomed them.

However, both these efforts confirm what we and others have been saying all along. The FAA cannot do the job properly on a routine, day-to-day basis with its current manpower and budget. This assessment is supported by the Memorandum on Evaluation of National Air Transportation Inspection Program Reports issued April 1985 by the FAA.

Slowly but inexorably, the combined effects of cost competition, explosive growth, increasing crowdedness in the skies, and the FAA's inability to cope, are pushing us in the wrong direction. We're not reaching for the panic button yet, but if the trend is not reversed, we may have no alternative.

In our statement submitted for the record, we described several programs, projects and activities which are currently under way within the FAA.

In our opinion many of these are under funded today because for a number of reasons funds, which are collected through taxes paid by passengers who purchase tickets or taxes on aviation fuel paid by general aviation aircraft opertors, are not made available to the FAA.

This situation which has developed over the past several years seriously compromises the basic intent of the aviation trust fund. This intent as everyone knows is to fund necessary safety programs for our air transportation system.

Now in spite of the fact that the President has proposed an increase in funding for FAA operations, we are still facing further restrictions on the ability to access this trust fund for needed monies to complete vital safety programs, which require additional dollars for research and development coupled with new facilities and equipment.

This amounts to a basic breach of faith between those who pay these taxes intended to fund safety improvements and those in government who approve budgets or appropriate funds.

Before proceeding with our comments on weather radar, I would like to discuss the subject of windshear itself. First, it is very important that we distinguish between windshear and a microburst. A microburst, which is windshear in its more severe form, should be separated from other forms of windshear. To call a microburst "windshear" is to call a hurricane "gusty winds." A microburst is a phenomenon that cannot be flown through successfully and must be avoided.

We must realize that we still do not know the full nature of microbursts and therefore cannot legitimately argue for any particular recovery technique once an aircraft penetrates a microburst. Much analytical research is needed in this regard, for until we develop fail-safe detection techniques, pilots, controllers, and others in aviation must know what they are up against and how best to react to it. Research on microbursts and their development is currently underway, as well as analytical research on optimal aircraft trajectories in microbursts. This work must be funded and allowed to continue.

Much has been said about the next generation radar technology (NEXRAD) and its application to aviation weather, and we fully support this worthwhile program. It must be understood, however, that NEXRAD, as presently defined, fulfills only part of the needs of the aviation user. The new technologies it brings to weather surveillance, such as Doppler radar, although a significant improvement over the existing Weather Service Radar System, are limited to the enroute structure of aviation. If we hope to use this technology to detect windshears and microbursts, it must also be able to perform in the terminal environment where these hazards are the most dangerous. The obvious vehicle for such an application is the terminal Doppler radar, and we ask that this program receive your full support as well. Terminal Doppler radar is a necessary extension of NEXRAD technologies if we hope to mitigate the dangers of windshear and the microburst to the aviation community. It must receive the same priority as the overall NEXRAD program. At its current level of development, however, we are not yet convinced that the Doppler technique will be able to provide consistent and reliable detection capabilities in the dynamic environment of terminal operations. We consequently endorse an intense and accelerated research program and further development of application techniques focused on the terminal Doppler radar system.

Likewise, we ask that concurrent funding be made available for an equally aggressive program for research and development of airborne sensors capable of detecting windshear in the immediate vicinity ahead of an aircraft. In this way, state-of-the-art detection capabilities will not be limited to select airports and we will provide the public with the highest possible level of safety. Various promising technologies are currently under development for such equipment and these activities should be continued.

Finally, any solution to the windshear problem will rely heavily on how effective we are in passing weather information to the pilot. This issue has been addressed many times before, yet we continue to have accidents where the lack of timely weather dissemination was a factor. The industry is guilty of underutilizing even the present weather radar system and is horribly inefficient in dissemination techniques. All the data in the world cannot help the pilot if he receives it too late.

The problem of windshear and the means to detect this phenomenon and pass on vital weather data to pilots is only one of several programs that could be adversely effected by the proposed 1987 budget. A description of other potentially effected programs follows.

1. Air Traffic Controller Staffing

   There should be no reduction of current staffing and no deferment of hiring more controllers. Training activity must continue at present levels. The August 1985 report of the Subcommittee on Investigations and Oversight of the Committee on Public Works and Transportation indicated that "the number of controllers in 1984 was approximately 3000 short of the pre-strike level of 16,250." System-wide, the committee found that "the number of experienced controllers had declined by about one-half." The excessive controller workload, which is a function of staffing, can be shown by near-midair collisions and runway incursions. In December 1985, the FAA reported a 65 percent increase in NMAC reports since 1983. The number of runway incursions also continued to increase during this period. It should be obvious that any reductions in controller staffing would have an adverse effect on safety, especially as the FAA is far from completing a "rebuilding of the system" since the controller strike of 1981. We again urge the rehiring of some of the "fired" controllers to expedite the rebuilding process by reducing training time.

2. ATC Computer Replacement Program

   This is an ongoing program aimed at replacing existing ATC computer systems which are not adequate for handling the projected growth in aviation traffic beyond the late 1980's. The new computers are the bases for several safety improvements which cannot be accommodated by existing computers because of capacity limitations. For example, the new computer software will provide for a "conflict resolution" function. This will not only alert the controller to potential aircraft conflicts but will also suggest actions for effective resolutions of the situation. The new computers will also detect and track all aircraft equipped with an altitude reporting transponder and automatically alert the controller when such aircraft are in conflict with IFR aircraft. This feature will significantly reduce the potential for near-midair collisions. Existing air route traffic control centers are being expanded to accommodate the new equipment. Curtailment of this program as a result of budget cuts would extend the program over a longer period and result in cost overruns.

3. Traffic Alert and Collision Avoidance System (TCAS)

The development and implementation of an effective airborne collision avoidance system is long overdue and needed now more than ever. This system is not dependent upon the ground-based air traffic control system. The TCAS system currently under development is only marginally effective and will not provide the aviation public the degree of safety that today's technology permits. This system is known as TCAS II and provides only vertical escape maneuvers. Another system under development is TCAS III, which offers more accurate information than TCAS II, provides both horizontal and vertical escape maneuvers, and reduces the number of unnecessary alarms. Clearly the improved TCAS III system is more appropriate for airline installation, primarily because of the increased accuracy and the addition of a horizontal escape maneuver, which would be more effective in preventing a collision at both high and low altitudes. We feel that the FAA should increase its emphasis on the TCAS III system; we believe that budget cuts would seriously impact the final development of this much-needed equipment.

4. Next Generation Radar (NEXRAD) and the Terminal Doppler Weather Radar System

The justification for these systems is well documented, needs little, if any, embellishment, and is certainly able to withstand any challenge. The current long-range weather detection system is archaic from both an operational and a maintenance standpoint, and for years the current equipment has not met the requirements of users for adequate weather information. The funding for a limited production of NEXRAD for fiscal year 1986, which was deleted by OMB, must be reinstated. The basic operational requirements for NEXRAD are still valid and, considering that the majority of fatal aviation accidents are related to severe weather, this program should receive priority over non-safety-related issues. Another critically needed program is the development of terminal area doppler radar. A critical need exists for a means of detecting microburst activity and other such phenomena that have a detrimental effect on aircraft during their most crucial phases of flight, takeoffs and landings, and have been directly responsible for major aviation disasters.

5. Tower Closures

It has been a long-standing goal of ALPA to have an air traffic control tower at every airport served by scheduled

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passenger service. This goal is based on well-documented evidence that a control tower enhances operational safety. Following the PATCO job action on August 3, 1981, the FAA reduced the operating hours of over 300 control towers across the country and temporarily closed 80 towers. This action was necessitated by the lack of qualified controllers needed to man these facilities. The negative impact on aviation safety is obvious. The FAA assured the aviation community that it would do its best to return the majority of these facilities to their normal hours of operation as soon as staffing levels would permit. Due to a continued shortage of personnel after the PATCO strike, the FAA initiated a program of contracting the operation of low activity towers to the civil community. The FAA plans to include 55 airport control towers in its contract tower program by the end of fiscal year 1986. The agency's planning for fiscal year 1986 also calls for some closed towers to be decommissioned and for other towers to be returned to FAA operation. In Phases II and III of the program in fiscal years 1987-88, between 10 and 15 more operating towers are scheduled to be contracted and five nonfederal towers would be added each year. This contract tower program will provide additional air traffic control towers and has received the support of the White House as well as the Congress and the aviation community. It is consistent with Administration objectives to relinquish appropriate government functions to the private sector. The closing of the low activity towers would become even more prevalent with the across-the-board budget cuts for 1986, and should the out years' cuts materialize, more operational towers might be closed. These cuts would come at a time when air traffic activity is above that of the pre-strike period and, in our opinion, would have a serious negative impact on aviation safety.

6. Human Performance Research

In order to help ensure safety in our nation's aviation system, it is important to understand areas where human shortcomings may lead to problems, incidents, or accidents. The FAA is attempting to address these issues through selection, hiring, and operational practices for its employees. Pilots are the other half of the important safety equation. The FAA published a Cockpit Human Factors Plan in January 1985 that is designed to investigate human interface with an automated air traffic control system and highly automated new aircraft. The FAA has begun to address several operational safety issues identified by this plan, and more will be studied at a later date. Rather than curtail these important human interaction safety studies, we feel the FAA should proceed with its plan with increased vigor and commitment. These safety studies will yield important immediate operational safety gains and continue to pay safety dividends in the future.

7. **Aviation Safety Reporting Systems (ASRS)**

The FAA has an interagency agreement with NASA providing for the funding and operation of a real-time aviation incident reporting program, the Aviation Safety Reporting System (ASRS). This safety program provides important safety analysis information unavailable through any other source. In fact, the ASRS program has become so successful that it does not have adequate resources to process this vital safety information. The program needs increased support to continue its high level of safety utility. To cut support now, in whatever manner, would seriously jeopardize this vital flow of safety information to the aviation industry.

8. **Instrument Flight Procedures Development and Maintenance**

Quality and up-to-date instrument flight procedures are absolutely necessary to provide the maximum degree of safety in our airspace system. This becomes especially critical in the approach, missed approach, and departure segments of instrument flight procedures. We are aware that the procedures sections in the Flight Inspection Field Offices are understaffed and are experiencing difficulty in keeping up with the ever-increasing workload. At present, a large percentage of the specialists who are assigned to develop and maintain instrument flight procedures are trainees. We further understand that formal FAA Academy training in procedures development has already been deleted because of existing budget constraints. This means that the experienced procedures specialists must devote valuable production time to training. This situation has undesirable and, in our view, unsafe side effects. ALPA pilots have been reporting a proliferation of lengthy Notices to Airmen (NOTAMS) which are difficult to sort out in the cockpit environment and which contain an abundance of very critical procedure changes. At a high density airport, such as Chicago's O'Hare, it is not unusual to have very long, wordy changes to several procedures for several runways. Many NOTAMS are intended to be temporary, but they remain in the system for months and even years. We believe that the procedure specialists are forced to resort to issuing an excessive number of NOTAMS and permitting them to remain in effect for an intolerable length of time because of being understaffed, heavy with trainees, and having inadequate resources to process new or revised procedures in a timely manner. Therefore an across-the-board cut for this program could have a disastrous effect on the safety of instrument flight operations. We could be faced with the cancellation of existing procedures and/or a freeze on the development of new procedures. Instead of a reduction in outlay, this program desperately needs emergency aid to provide adequate staffing and training, not only to keep up with the present system but to develop approach procedures for the 1250 planned MLS systems.

9. Flight Inspection of Navigation Aids

Since as early as 1975 the FAA Flight Inspection Program has been cutting expenses in a very dynamic manner. It has consolidated Flight Inspection Offices, reduced its aircraft fleet, and established an automated flight check system that permits flight checks in instrument weather conditions. However, the flight inspection program has reached a point where further cutbacks could result in a deterioration of the navigation system as we know it today. We believe that the application of an across-the-board cut for this program would have totally unacceptable results. Just as the procedures program might have to halt new procedures development for the lack of an adequate number of experienced specialists, the Flight Inspection Offices might have to shut down navigation facilities and have procedures canceled due to the lack of resources to permit flight checks. Duplicative procedures now published (such as for noise abatement) may have to be canceled for lack of available flight hours. Periodic flight checks of ILS, MLS, VOR, and NDB navigational aids may have to be conducted less frequently. This development would be unacceptable. Also, the thoroughness of the flight check and some of the parameters tested might have to be reduced. This is unacceptable from a safety point of view.

10. Transition to the Microwave Landing System (MLS)

ALPA supports the MLS program because precision approach procedures are inherently safer than nonprecision approaches. Our position has long been that there should be a precision approach to every runway used by air carrier aircraft. The flexibility of the MLS, especially regarding siting and installation costs, makes it possible to have a precision approach to runways where an ILS is not feasible. Also, the FAA is revising its Airway Planning Standard Number One to include MLS qualifying criteria that will permit MLS selection for runways that could not have qualified using the present ILS criteria. Because of its direct relation to safety, the MLS program should not be subjected to an across-the-board cut that would delay the availability and installation of precision approach guidance at additional runway ends that can only be provided by MLS.

11. Airline Safety Inspectors

The safety inspectors, both flight and maintenance, provide for safe operating procedures and equipment. Although there has been a slight increase in the number of FAA inspectors in the past year, the present number of inspectors continues to lag 30 percent behind that of 1979, while the number of carriers operating today is 122 percent over the 1979 numbers. The shortage of FAA inspectors has resulted in a degradation of safety on the airlines as evidenced by more and more maintenance discrepancies that are being deferred for increasingly longer periods of time. In other words, passenger-carrying aircraft are flying longer periods of time with more inoperative equipment than in the past. Safety questions concerning the air traffic control system become academic if the aircraft operating in the system are not maintained to the high safety standards which provided the enviable safety record our industry has enjoyed in past years. We certainly cannot afford a cut in an area where it has been demonstrated that a decrease in the inspection force will result in a greater number of fatal accidents.

12. Airport Surface Detection Equipment (ASDE)

Present traffic control radar was not designed for and is incapable of locating aircraft on an airport with any degree of accuracy. Thus, in poor visibility conditions, a controller and quite often a pilot cannot determine if the aircraft is clear of a runway or taxiway. You will recall the Tenerife accident where two 747 aircraft came together at the Canary Island airport because there was confusion concerning aircraft location. A contract has already been awarded for new radar equipment (ASDE III) that will increase safety by improving the controller's ability to monitor aircraft on the ground. During the past ten years, there have been several collisions between aircraft and other vehicles on the airport surface in low visibility conditions. Also of concern to ALPA are the numerous runway incursions that have occurred and are increasing at an alarming rate. All of these accidents and incidents might have been avoided if effective and reliable surface radar had been available and in use. The research and development efforts for an improved radar system have taken 10 to 15 years. The new equipment will enhance airport safety by giving controllers a clear all-weather radar picture of traffic movements on runways and taxiways, ramps, and other operational areas. The FAA contract calls for the delivery of 17 systems and includes an option for 13 more. Any delay in these installation plans could have a serious negative impact on safety due to the increasing number of runway incursions.

13. Runway Friction Measurement

At the present time a pilot landing or taking off on a runway contaminated with snow, ice, or slush must rely primarily on other pilot reports as to the condition of that runway and the ability to stop on that runway. These pilot braking action reports are very subjective because the reporting aircraft could be a different model - lighter/heavier, faster/slower, etc. There have been many instances in which aircraft went off runways because the flight crew had inadequate information on the stopping condition of the runway. Therefore, there is a need to determine if the presently available friction measurement vehicles are sufficiently accurate, under winter contaminated conditions, to be used to give runway friction measurement information to a flight crew. These vehicles have proven themselves to be very useful to the FAA and an airport operator in ensuring that the runway is maintained to a satisfactory dry/wet level of friction. We must now expand this knowledge.

14. FAA Security Program

I am certain that most of you are frequent travelers and are well aware of the airport security measures being taken to prevent the hijacking of aircraft. Airports already have elaborate systems for searching passengers and luggage to minimize the chances of a hijacking. However, hijacking incidents still occur and terrorism is continuing to spread worldwide. Recent terrorist activities have emphasized that our security systems are still vulnerable. To counter this threat, we must continue the FAA security program and make improvements. As the terrorists increase their knowledge, techniques, and sophistication, we need to update and improve our security efforts. Specific support is needed for added personnel and greater research and development.

15. Air Carrier Airport Certification

Until 1974, regulations were nonexistent for lighting, marking, visual aids, condition of the runway/taxiway, snow/ice removal, and crash/fire/rescue facilities at air carrier airports. However, the initial regulations were such compromises that many of them are little more than recommended practices. The FAA recognized this problem and recently issued a Notice of Proposed Rulemaking (NPRM) in order to bring airport regulations into line with the standards applicable to other areas of air carrier operations. However, since some of the improvements contained in the improved version of the regulations will require added expenditures, there is concern that final regulatory action will be delayed until sufficient funding is assured. Therefore, since the majority of aviation accidents - 80 percent - occur on or in the vicinity of the airport, it is imperative that the regulations concerning airport safety be improved.

16. Airport Improvement Program (AIP) Funding

Safe airports are an essential part of the air transportation system. Currently there is a serious problem with inadvertent runway incursions. These occur when aircraft and vehicles taxi onto runways where aircraft are operating. These inadvertent runway incursions need to be resolved. Inadequate visual aids, overly burdened air traffic control, and human factors errors are contributory causes. The solution lies in improved visual aids and standardization. Airport lighting and markings must be upgraded to support future low visibility operations. This requires research into new types of airport equipment, including signs and surface detection equipment.

There are also basic problems with having enough good equipment to remove snow from runways, and money is needed to purchase replacement and additional equipment.

17. Aircraft Certification Standards for New Technology Aircraft

Present regulations dealing with certification of air carrier aircraft do not address the systems and concept being proposed for the next generation of aircraft. Systems such as fly-by-wire with fully active controls, where the aircraft to a greater or lesser extent is being controlled by computers, have appeared only on certain military aircraft where mission requirements dictated such systems. In many cases these automatic systems are still in the military research and development area. However, several manufacturers are already proposing that these exotic systems be standard on air carrier aircraft scheduled to be flown and certificated within the next two to three years. If the FAA and the regulations addressing such systems are to keep pace with these advancements, it is imperative that funding be approved to allow FAA personnel to investigate these systems and concepts.

Thank you very much for this opportunity to speak with you today and provide our comments.

Mr. FROST. Dr. Robert Serafin, National Center for Atmospheric Research, and Dr. Serafin if you would, please summarize your testimony. We do have some more witnesses that have time problems.

STATEMENT OF ROBERT J. SERAFIN, DIRECTOR, ATMOSPHERIC TECHNOLOGY DIVISION, NATIONAL CENTER FOR ATMOSPHERIC RESEARCH

Mr. SERAFIN. I plan to talk briefly about three important elements in my written testimony.

The first has to do with the assessment of windshear as a hazard in aviation; second, the status of our understanding of the microbursts and windshear and how they affect aviation; and the third is recommended solutions to the problem.

I think we ought to remind ourselves that in 1982 we had an airplane crash in New Orleans, the PanAm 759 that went down on takeoff in a low-level windshear of amplitude of about 50 knots.

Two years later in 1984, we had United 663 in Denver which almost crashed. The plane ran out of runway on takeoff, barely got off the runway and clipped an antenna, found that it could not pressurize its cabin and had to come back down and land again. Half of the antenna was found sticking through its fuselage. A very near miss. This was a situation very similar to that in New Orleans, except they were much luckier.

And then, last summer, the tragedy in Dallas occurred when Delta 191 came down here in July.

We have about one windshear accident every year or two in the United States. We know that weather is a factor in about 50 percent of all aviation-related accidents.

And the National Transportation Safety Board tells us that windshear is the most serious weather-related hazard to aviation. That's the bad news.

The good news is that we can do something about it.

In 1977, we knew very little about microbursts. In fact, meteorologically, we didn't really know that such a thing existed. It was Ted Fujita from the University of Chicago in 1977 who analyzed the crash of an Eastern Airlines plane and postulated a downburst emanating from a summertime thunderstorm as the potential cause of that crash.

In 1978, Fujita, using Doppler radar was able to provide the first radar verification of a microburst.

In 1982, Fujita, with Jim Wilson and John McCarthy from our own institution, conducted the Joint Airport Weather Studies Program [JAWS] at the Stapleton Airport in Denver. There, we learned a great deal about the structure of microbursts, their sizes and shapes, their intensities. And incidentally, we found there that about 50 percent of the microbursts in Denver were on the order of 50 knots or greater. A 50-knot windshear was the kind of windshear that caused the crash in New Orleans and the problem that United had in Denver. So, many of the microbursts that occur are of sufficient amplitude to cause serious hazard to aviation.

We learned about the frequency of microbursts. We found that in Denver in a 90-day period there were some 100 microbursts within just a few miles of the airport. Again, half of those were 50 knots or greater in amplitude.

In 1984, after the United Airlines incident, the FAA asked the National Center for Atmospheric Research to come and help to protect Stapleton Airport. On short notice, we put a Doppler radar unit into operation and for the first time were able to quantitatively analyze the ability to forecast microbursts in a timely manner.

We found that with Doppler radar it was possible to obtain a 2- to 4-minute advance warning of a microburst. It also demonstrated clearly the feasibility of Doppler radar as a warning and detection device.

The future, I guess, as we see it has to be addressed through seven major issues. These are the solutions to the problem.

The first is training. We can and must improve training and consciousness among pilots, among controllers, and among the aviation industry.

The second element in the program is to improve the low-level windshear alert system. It is the only system we have now at some 100 airports. It wasn't designed for microburst detection, but it can be used to help with the problem.

The third is the terminal Doppler radar that was mentioned earlier. This really does represent the long-term solution at those airports where such radars can be afforded. The FAA is moving forward with this program now. The principal technical problem we're dealing with at this time is that of semiautomated or fully automated operation.

Fourth, airborne Doppler radar should be pursued for those pilots who don't land at the major airports and, thus, would not be protected by ground-based systems.

Fifth, we should establish a focal point for windshear within the Federal Aviation Administration which would manage the research and development, education, and performance evaluation of systems for our aviation system.

Sixth, a few years ago, a National Academy of Sciences panel recommended that we establish a national test and evaluation facility for evaluating all components of microburst and windshear detection and warning. This test and evaluation facility should be implemented.

And last, we should move forward with the NEXRAD system for regional surveillance of the severe weather environment in which windshear and microbursts occur.

I'll be happy to answer any questions you may have.

Mr. WRIGHT [presiding]. Thanks to all members of the panel.

Our Chairman is back now.

Mr. FROST. We do have a time problem in that one of our next witnesses is on a fairly tight schedule. Has Mayor Whitmire come into the room? I know she'll be here shortly. If the staff could ask her to come in.

We will take some very brief questions, and then I would like to move to our next panel on local government with County Commissioner John Wiley Price, who has been waiting patiently throughout the entire hearing, and Mayor Kathy Whitmire.

And I would call on the majority leader, if you have any questions at this time.

Mr. WRIGHT. Jim, you're our best authority in Congress on aviation safety, you and Norm Mineta, between you have done extensive research.

I was interested in the comment by Dr. Serafin that Doppler radar could provide a 2- to 4-minute warning in advance of these microbursts, and it just seems to me that the whole process of the budget is to try to determine where you get the best maximization of a dollar and where you achieve the best direct to the public.

Do any of the members of the panel have a figure representing how many millions of passengers in the United States fly in a given year? Is there a broad figure?

Mr. SERAFIN. 380 million.

Mr. WRIGHT. How much?

Mr. OBERSTAR. That figure is about right; 380 million paying passengers.

Mr. WRIGHT. This is in commercial aviation, exclusively, 380 million?

Mr. STEPHEN. Approximately 500 million people will fly in the United States.

Mr. WRIGHT. My goodness. That's an enormous factor.

Now, we're trying to figure out places we can cut. Obviously, that's the whole purpose of the exercise, not to avoid reductions but to find out where they can be made without compromising the safety and well-being of the American people.

It strikes me that $500 million out of what we spent last year for aviation programs, operations and facilities and equipment improvements, airport construction grants, and research, that there are other related areas that probably have less bearing upon the well-being of the American people.

Are any of you familiar with the plans discussed by the President in the State of the Union Message to develop an aircraft that would orbit in space and take us to Tokyo in 2 hours? Do any of you know anything about that? Is that a commercial aircraft?

Mr. **Oberstar**. Mr. Leader, that sounds—sounded very much to me like warmed over SST debate of the 1960's. And the problem with that proposition is that the Japanese probably won't let it land at Mareta Airport.

Mr. **Wright**. So, if you got aboard to go there for lunch, you might be disappointed.

Mr. **Oberstar**. You might wind up making circles in the sky.

Mr. **Wright**. I just wonder if maybe some of that money might be better spent included in safety standards for our 380 million passengers?

In addition, the President's budget, far from being austere in every respect, calls for a $2 billion increase in space activities. And as I understand it, as pointed out by our colleague, Mr. Chapman, calls for more than a $2 billion increase in Star Wars research. I don't know why we're putting that into building anything.

I'm just curious, if these things might not suffer a little bit of the same austerity and belt tightening that is being requested of the things which contribute directly to aviation safety in order that we might not compromise the safety of our passengers. Do you have any thoughts about that?

Mr. **Oberstar**. I fully agree with the leader's assessment. There are expenditures in other areas of the budget that could be restrained in order that we might provide the funding that is needed for an essential safety factor, one that is directly related to economic activity in this county. Aviation is an $8 billion national industry. And right here Dallas/Fort Worth you had last year 1,700,000 aircraft at the Dallas/Fort Worth airport. You had another 2 million, roughly, at Love Field.

The need for the host computer that is the advanced state-of-the-art computer, not the next generation but the bigger capacity computer is urgent right here. That work is going forward at the air traffic control center at Dallas/Fort Worth.

But that could be endangered by the budget cuts if we have the full impact of Gramm-Rudman.

And the terminal radar systems, color weather radar system that is needed at this airport which has very high incidences of microbursts and windshears would be seriously endangered.

Mr. **Frost**. I would like to thank the panel. That's been very helpful.

We do have a panel now dealing with local government, and I'd like County Commissioner John Wiley Price and Mayor Kathy Whitmire to take their places at the table.

If Commissioner Price will permit, I would like for Mayor Whitmire to go first because she does have to go back to Houston.

Again, I appreciate the fact that you both have been waiting patiently, and your testimony is very important to this hearing.

Mayor Whitmire, would you go ahead?

STATEMENT OF HON. KATHRYN J. WHITMIRE, MAYOR, HOUSTON, TX

Ms. WHITMIRE. Thank you very much, Congressman.

Let me say that due to the outstanding air service between Houston and Dallas, we have been able to secure another flight so that I could try to stay and answer your questions today.

I appreciate all of you spending your time this afternoon and holding this panel here in Dallas to hear from concerns all over the State of Texas and in this region about the effects of the proposed Federal budget and how it might relate to what we are trying to do at the local level in meeting the needs of our communities.

Certainly, those of us in local government have some very exciting and very serious challenges. We have the responsibility for providing those basic and essential services that allow urban life to go on, that allow people to be safe in their homes and to travel by cars and to take public transportation to their jobs or to have safe water to drink or to be able to get a breath of fresh air or to have emergency services in case of fire or accident. Those are the basic, day-to-day services that we deal with everyday.

We recognize that we have established here in Texas some very effective partnerships with the Federal Government. And that's really what I want to talk about today is the partnership arrangement that exists between local government, the private sector, State government, and the Federal Government and the kinds of effects that could come about as a result of some of the proposals that are now being considered in Washington.

I don't think that the real question before us is whether or not the Federal Government will continue as a part of that partnership. I have no doubt that everyone who is a Federal official recognizes the advantages of having the Federal Government as a partner in urban needs.

I think the question is what form the partnership will take. What programs now in existence will be continued; which ones will be cut and how much; and which ones will be eliminated?

That's why today I'd like to present to you some thoughts which I believe are shared by substantially all of my colleagues in the U.S. Conference of Mayors about the Federal Revenue Sharing Program.

It has been our experience that the Federal Revenue Sharing Programs which we have participated in all of these years has been the single most effective of the Federal programs that seek to meet needs in urban Government.

The reason for that is that the Federal Revenue Sharing Program has the lowest cost of any of the urban programs in which the Federal Government engages, and more of those dollars are returned directly to the life services at the local level. And in addition to that, it has the most flexibility, so that communities can make decisions from year to year and change the thrust of that program, redirect those funds into the current priorities as seen by the local community.

And I think those two attributes are the reasons why I would hope to see, and certainly would urge you to see, that general revenue sharing is reauthorized and is continued as the highest priority amongst urban programs because I think that all of us recognize that the Federal Government has to reduce spending. We recognize that and that there are going to be less dollars available to assist local governments in this partnership that we have.

But given that fact, I would believe that all of us want to see those scarce resources used on the programs that are the most effective, the ones that put the most dollars directly to work at meeting the needs of the people of this country.

And that's why I would urge you to give further consideration to the reauthorization of the Revenue Sharing Program as the one that returns control to the local level, the one that provides that community priorities can be taken into account.

Now, I think this same principle holds true in another partnership that has been established, the partnership of the Federal Government and the local transit authorities that exist in major cities around our country. And I want to say just a word on behalf of the transit authorities.

Cities like Houston and Dallas and others here in Texas have established a local source of revenue to provide for the operation of public transportation systems. However, even though we are paying for the operation of those systems, we still have a need for that partnership assistance from the Federal Government in building the infrastructure for public transportation.

We are proud of the steps that have been taken to develop new public transportation in our cities in Texas. We were proud of having a dedicated local source of revenue to support those operations and the fact that we don't seek any assistance to subsidize transit operations by the Federal Government.

But we would encourage you to continue those capital grants which have provided such tremendous assistance in building our transit systems in the communities here in Texas and in other parts of the country.

I would point out, however, that we are willing and prepared to pay our share of the capital costs as well and are paying substantially higher percentages of those capital dollars than other cities have paid in the past in developing public transportation systems in conjunction with the Federal Government.

Finally, there's one other issue that I want to mention to you briefly. As we are all facing the facts that there will be reduced spending to assist in meeting urban needs by the Federal Government, I think we have to look very seriously at the detrimental effects of the tax reform bill which has recently been passed by the House. The effect that it has on local government's ability to meet one of its most basic requirements, that requirement of building our infrastructure to provide for our future economic growth and quality of life.

We in Texas have a lot of needs for building infrastructure. Streets and roads and sewage systems and storm sewer systems, park systems. We have a lot of infrastructure meetings, and we are large issuers of municipal debt in order to meet those infrastructure needs.

The fact that very serious restrictions have been placed on our ability to issue tax-exempt bonds for municipal purposes is of grave concern to me and to my constituents and to my colleagues around the State. We would urge you to reconsider those restrictions which have upset the bond market already and which have made it very difficult for us to pursue valid public purposes, such as the construction and expansion of convention facilities and sporting arenas.

It has made it very difficult for us to even move forward in an orderly way on our sewage treatment plant construction which is so important to improving our water quality here in the State of Texas.

We feel that this extra burden of severely restricting our ability to finance our infrastructure is one that we cannot meet in addition to dealing with the cutbacks in other programs that we consider a partnership with the Federal Government.

So, I would ask you to look at those issues, the need for the continuation of the partnership that exists, the need to continue as priority those programs such as revenue sharing which have the lowest administrative costs and the highest amount of local flexibility and the very serious need to make changes in the tax reform bill which will allow for an orderly bond market to finance, through tax-exempt securities, the infrastructure ingredients which are so seriously needed.

I really thank each one of you for the attention you've given to these concerns and taking your time to look very diligently to each one of us in expressing these issues to you today.

Mr. FROST. At this time, I'd like to recognize County Commission John Wiley Price. We're particularly pleased to have Commissioner Price here. Commissioner Price is one of my constituents. Mr. Price.

STATEMENT OF HON. JOHN WILEY PRICE, DALLAS COUNTY COMMISSIONER

Mr. PRICE. Mr. Chairman, majority leader, Congressmen Bryant, Chapman, Congressman Boulter, mayor: At the risk of being repetitive, I think Mayor Whitmire has addressed most of the concerns that I think both counties and cities alike would share.

Unlike many other counties and communities across the country, Dallas County is not overly dependent upon Federal assistance, and we are in a position here in Dallas County to be able to adjust to the reductions.

But Gramm-Rudman is going to have a profound effect, not only on Dallas County, but on counties all across this Nation.

Generally, the money that comes into Dallas County, either directly or indirectly, received from the Federal Government falls into about four categories, and their proceeds are usually on nutrition for the elderly, job training for the unemployed, health and general revenue sharing.

I think Mayor Whitmire spoke to the fact that, unless you, the Members of Congress, reauthorize prior to October 1 then revenue sharing is slated to be terminated. Even though Dallas County, again, does not depend very heavily upon that revenue sharing, I think it does add significantly to the budget, some 4.7 percent or $13.8 million. The majority of that money that we dedicate, of course, totals about 80 percent to the criminal justice division.

But what is potentially and far more troubling, however, is the effect that Gramm-Rudman will have after 1986. In fact, on into 1987 fiscal year budgets.

The funding level for these programs for the past few years have been either static or have been basically reduced.

What we have done here in Dallas County has been of serious consequences to the Federal programs that operate not much—I think we substantially reduced or eliminated.

Dallas County already has problems that are profound, such as gonorrhea, tuberculosis, and AIDS rates that are higher than the national average. The job training programs have already been reduced from $8.1 million in fiscal year 1978 to $3 million in fiscal year 1986.

The nutrition program serves not the retired executives or former debutantes, but a full 40 to 60 percent of its beneficiaries have come from income levels below OMB's poverty guidelines. If, then, these programs are slashed at the Federal level, the county will, of course, seek to reallocate its resources and continue its central services. This, however, may not be very easy to do because local fees and fines in Texas cannot be raised except by legislative fiat.

Property taxes are eternally limited to increases of no more than 8 percent per year.

County reserves can, of course, be used to offset future reductions, but if the county, for instance, were to completely assume the four existing program areas, then the reserves would be depleted by 20 percent just after 1 year.

The county may be able to grow itself into new revenues, but with new increases in population, with the north-south shift, and with revenues undoubtedly come new demands for new services.

Gramm-Rudman will not cripple Dallas County as it might other entities. It will, however, make the provisions of key services more difficult than ever before. At a time when the citizenry is told to look to local government for assistance, this is a bit of irony.

The effects of the tax reform bill, as Mayor Whitmire has spoken to, for Dallas County is going to be extremely difficult. From Dallas County's point of view, there is much more with the proposed tax reform bill.

Under H.R. 3838, State and local governments would be required to rebate positive arbitrage from investments of unspent bond proceeds, debt service bonds, and reserve bonds with some minor exceptions to the Federal Government. Yes, a relatively small amount of dollars involved. This would impose onerous bookkeeping, accounting, and cash management requirements on State and local governments.

In fact, in many instances, these costs of administration may exceed the cost of any arbitrage rebate.

In addition, the bill would also require, No. 1, the State and local governments to file 1099 forms for payment of income and property received during a year on a taxpayer-by-taxpayer basis; and No. 2, we would have to furnish the taxpayer with statements showing payments received from the taxpayers. This, in turn, would require just Dallas County to assemble information, prepare tapes, and pay postage of mailings of approximately 600,000 items.

However, as burdensome as these provisions would be for Dallas County, they are totally insignificant in comparison to those early issuance provisions which threaten the loss of tax-exempt status for Government bonds.

Under these provisions, bonds of State and local governments would become taxable if at least 5 percent of the net proceeds were not spent within 30 days or that all the net proceeds were not spent within 3 years.

From an administrative bond implementation program, these requirements are completely unrealistic. Texas law generally requires the State and local government to have bond funds in the bank and available for encumbrances or appropriations before public contracts can be let, which generally requires competitive bidding. So that it is very difficult, and in many cases impossible, to insure that any significant expenditures can be made within 30 days of issuance.

Moreover, most bonds are issued based on estimated costs; thus, it is most unusual to spend every last cent of bond and investment proceeds on the project which the bonds were issued.

Usually, the relatively small balance proceeds or investment income remaining after projects are completed will ultimately be spent on related projects or improvements on original projects, but usually not always within the 3-year period.

The effect of these early issuance provisions would have on local spending governments would be catastrophic without the guaranteed status of tax exemption. Local government will only be able to attract buyers for their bonds by utilizing high interest rates. This, of course, will either increase taxes for debt service or reduce the amount of bonds to be issued or result in some combination of both.

Worse still, these provisions may even encourage the shoddy construction and the waste as local governments will undoubtedly hurry to try to begin a project within the 30 days and have it completed within 3 years.

At a time when it has been estimated that billions of dollars are needed to be spent by the end of the century to repair our Nation's infrastructure, at a time when local governments are attempting to comply with Federal laws and court orders by building new sewage treatment plants, mental health facilities, and jails, at a time when some members of the Texas Legislature are beginning to think about the unthinkable, a State income tax, and when Dallas County is beginning to implement a 1985 approved $237 million bond, this is a very simple tax reform bill that Dallas County and other firms of local government cannot afford.

Gentlemen, thank you very much for being in Dallas County.

Mr. WRIGHT [presiding]. Thank you, Commissioner Price and Mayor Whitmire, for your lucid and constructive testimony.

I am glad that you have brought to the attention of this panel, and I hope that spokesmen for local units of government are doing so everywhere throughout this country the grievous and foolish wrong inflicted upon local units of government everywhere, but it's an unreasonable early issuance provision of the so-called tax reform bill. I can see how it would wreak havoc with plans all over the United States and to no ostensible purpose.

For whatever comfort it is, I look around on the panel here and discover not one of these Members of Congress voted for that bill. Mr. Bryant.

Mr. **Bryant**. Thank you, Mr. Chairman.

I would like to thank Mayor Whitmire for traveling all the way up here and also Commissioner Price for his usual forthright and right-to-the-point statement about what we are facing here.

I would just like to make one observation, and then I will not burden the committee with questions.

It would seem, based on some of the observations that have made here prior to now, that a proposal which suggests we cut funds for drug interdiction, cut funds for air safety, and cut funds for health and for some of the community needs that you made reference to is somehow necessary because of vast increases in domestic spending in other areas which, allegedly by some accounts, have caused these great deficits.

I think it's important for you and others to know, that for 12 years prior to the 1981, the budget deficit in this country has averaged about $40 billion a year.

It has averaged about $200 million a year for the last 5 years. And it's a fair question to ask: What change, what radical change, was there?

Some attempt to make the case that the change was a radical increase in domestic spending, even though we had a new President who pledged not to increase domestic spending and to try, at least, to cut it.

If you avoid the apples and oranges problem of talking about dollars and instead you talk about the percentage of GNP, it's not hard to figure out what's happened in the last 5 years. And what's happened in the last 5 years is that we have seen a reduction in domestic spending from 15.1 percent of GNP in 1981 to 13.8 percent of GNP in 1986, not an increase.

At the same time, we've seen an increase in the area of Pentagon spending, from 5.3 percent of GNP in 1981 to 6.4 percent of GNP in 1986. It's not hard to figure out where the changes have taken place if you really want to get to the truth.

I think the information that's offered to the contrary would fall into the category of misinformation, and I think it's important to set the record right.

I think it's also important to point out one thing, as I think the majority leader did earlier, when you double the national debt in 5 years, as has happened since 1981, you also radically increase the amount of interest we, as Americans, have to pay on all that borrowed money. In 1981, 2.3 percent of GNP was spent on interest; in 1986, 3.3 percent of GNP is being spent on interest.

So, that needs to be made clear. And, I think, as your testimonies offered up, this needs to be heard in the context of what has gone before in the last 5 years so that you don't appear to be a part of the problem asking for more when, in fact, the picture is far different from what most people think. Any observations on that?

Ms. **Whitmire**. I'll try not to make too many long comments. I spoke about revenue sharing a few moments ago, and I want to mention that that's one of the things which has not been increased, but rather has been held constant over these past years, thereby demonstrating that it has not at all contributed to the increase in the deficit. And it seems a shame that it could come back and take these, which have not contributed to the increase and choose them as the ones to cut out to be able to reduce the deficit.

Mr. **Bryant**. Thank you, Mr. Chairman.

Mr. **Frost**. Have you concluded? I'll pass to Congressman Boulter.

Mr. **Boutler**. Mr. Chairman, Madam Mayor, and Commissioner Price, I enjoyed both of your segments and reiterate that I, for one, at least am in agreement with everything you said about tax reform.

And Commissioner Price, I also cannot tell you how much I am in agreement with the main thesis of your testimony, and I'm going to quote or come very near to quoting what you said about Gramm-Rudman having a profound effect on Dallas County. I think you're exactly right. I think Gramm-Rudman is going to have a great and wonderful effect on Dallas County.

And, I think, also, Commissioner Price, that you agree with me that there are others on the Dallas County Commissioner's Court who are not here today, but who would agree with my statement in the context I'm talking about, and that is that it is a balanced budget plan and, yet, you seem to indicate that you have a lot of trouble with Gramm-Rudman. Now—and let me finish, and then I want to hear from you.

If you're talking about the automatic cuts, commissioner, I share that problem with you. Our job, as Members of Congress, is to make choices, but certainly, you would not quarrel with the concept of producing a balanced budget by 1991.

For economic growth to continue in Dallas County and in our State and the country that was produced with much more strength in new home loans and access to capital formation and the wonderful benefits that would flow from that. And I hope you would agree with that statement, and I would like to hear from you.

Mr. **Price**. Thank you very much, Mr. Boulter, and I do agree with you, it's going to have a profound impact. And I have no problem with the balanced budget. I would much rather see us balance the budget on the back of the Pentagon than on the back of the elderly and the programs that I see remaining either constant, static, or have been reduced subsequently.

When we started talking about revenue sharing in Dallas County and we are dedicating those funds to nutrition for the elderly, for the most part, and job training for unemployed individuals, then, I think, as Mayor Whitmire said a few minutes ago, it is your priority that probably gives me somewhat of a problem.

Mr. **Boulter**. No, not my priority. And I agree with what you're saying. We need to make the priorities.

I think it is absurd to cut aid to the handicapped and special education when we continue to fund programs like Legal Services Corporation and Export-Import Bank. I agree with you. We need to prioritize.

But Gramm-Rudman, for that matter, I'm sure you're aware says that, if those automatic cuts come into play, 50 percent of them would come out of defense and only about 25 percent of our country's budget is taken up by defense.

Mr. **Price**. Well, while you talk about only 25 percent of the budget being taken up by defense, I think the programs that I've alluded to earlier would probably represent less than, probably, 5 percent of the budget.

So, that still is, to me, unbalanced when you start talking about trying to balance the budget. I am still concerned a dedication in terms of the priorities to those programs, and I still say you have permitted—if you do permit it, no reauthorization of revenue sharing by October 1, then that, in fact, the way we have appropriated and allocated those funds will say something to those particular basic programs. And they're not defense programs.

And so, therefore, it has the effect of balancing the budget on the back of those programs.

Mr. **Boulter**. One quick question for Mayor Whitmire. Madam Mayor, I wish we had revenue to share. Let me just ask you this one quick question: Are you in favor of a tax increase if that's what it takes to continue revenue sharing?

Ms. **Whitmire**. No, I'm not going to attempt to tell you how to make all of those decisions as to decisions between revenue enhancements and spending cuts. I think all of us in local government would absolutely agree with the need to balance the Federal budget.

We in local government have to balance our budgets every single year, and we support you in that effort. Our effort here today is to point out to you that there are some very good, some very cost-effective, some very meaningful programs that have been going on at the local level that have provided tremendous benefits to people at the local level in partnership with local government, and they have not been the ones that have been increasing.

And we'd like you to put some priorities on those as you do reduce spending overall, in the effort to balance the budget, hopefully without a tax increase.

Mr. **Boulter**. Thank you, Madam Mayor.

Mr. **Frost**. To Mayor Whitmire and to Mr. Price, I would like to point out that the Congressional Budget Office did a study recently—this is a nonpartisan office—in fact, it's headed by a Republican right now—studying the fiscal year 1985 budget, and it was the projection and findings of the Congressional Budget Office that of the approximate $200 billion deficit in fiscal year 1985 that about $130 billion of that was accounted for by the 1981 tax cut. In other words, if we had not had that cut, the deficit would have been $130 billion less than it turned out to be for fiscal year 1985.

This same study showed that the cuts in domestic programs which the President sought in order to reduce the deficit were completely offset by the increases in the defense budget, so that they netted out, and that all the reductions that are made for that year yielded us zero in terms of helping with the deficit because of the amount of money the defense budget increased.

And I would ask you, ask both of you, would you be in favor of a freeze in the defense budget? That is, freezing it at last year's level. Or, would you even want to see it cut back beyond the freeze? What do you think is reasonable given the needs of domestic programs, given the needs of the programs that your city or your county administer?

Ms. **Whitmire**. I think that the defense budget has to share in the effort to reduce the deficit and balance the budget at the Federal level.

It's my belief that Federal Government, whether it's the defense budget or whether it's domestic programs has to be given the same scrutiny that we have to give our programs in the local municipal governments.

We've undertaken in local government a program of quality and productivity to find some ways that we can continue to carry out our programs without increasing costs and even accomplishing some cost savings. I know that the city of Dallas has done the same thing with some very good results.

And it would be my hope that we could see the Pentagon undertake some of those same kinds of productivity efforts to find cost savings within their budget, as well.

Mr. **Price**. In the essence of time, I would like to see the Governor with one less uniform. He testified a few moments ago that somehow in the new budget that there was some $200 million that had been relegated to uniforms. We'd like to see him with one less uniform. So, yes, I would definitely like to see the budget cut.

Mr. **Frost**. Thank you. Congressman Oberstar, do you have any questions?

Mr. **Oberstar**. No, thank you, Mr. Chairman. I just want to compliment both witnesses on their strong support for revenue sharing.

The mayors in my congressional district, and the county commissioners in my congressional district will applaud your efforts. They have invested some of their funds in infrastructure rebuilding and balancing their social programs. And we agree, it hasn't increased and hasn't added to the deficit.

Mr. **Frost**. Congressman Chapman?

Mr. **Chapman**. Let me ask very briefly about some specific programs that are targeted in the President's budget, and I'd like each of you to comment if, in fact, these programs are beneficial to you. I don't know because I'm not involved in city and county government as you are.

Under the area of the budget area of community in recent development—and let me list all of these, and then I'd ask you if you would comment on whether or not you find that they are useful expenditures and are the Federal funds that are provided within this budget area, in your opinion, not only useful, but are they cost effective and beneficial in your experience?

First, the community development block grant funds are reduced by some $2.6 billion in the President's budget; urban development action grants, the President's budget proposes to terminate the Urban Development Action Grant Program. The budget proposes, as far as home rehabilitation funds, to cut those programs; area and regional development, the President's budget proposes the termination of a number of area and regional development programs, including EDA, ARD, TDA, and various Farmers Home Administration development programs.

All of these mass transit, of course, is substantially cut. The infrastructure programs that you have—we have mentioned are substantially cut, as is the Amtrak rail subsidy entirely, which most assuredly will force Amtrak into bankruptcy.

As to these programs, in addition to revenue sharing, which you have both spoken to, I think, very well, what about these other programs that are on the table to be either terminated or reduced in expenditures?

Ms. Whitmire. Let me just try to briefly address some of those issues embraced. I'm not totally familiar with all of those programs. Hopefully, Commissioner Price will be familiar with all of them.

I want to say, of the programs you just mentioned, the transportation and infrastructure programs come very high on the list. Mobility is a very big concern to us in Houston and, I think, to others cities in this area. And most certainly, the reduction in available funds for developing our mobility infrastructure is of grave concern to us.

You mentioned the UDAG Program, the Urban Development Action Grant, and I have to smile a little bit about that since we've just been, once again, turned down for a UDAG, something we've never been able to receive in Houston, and I don't know if Dallas has ever gotten one or not.

Mr. Price. No.

Ms. Whitmire. But the formulas that have been applied in the distribution of funds under the UDAG Program have been greatly skewed against the Sun Belt and, as a consequence, our cities have not benefited from them to the degree that cities in the North have benefited.

And that is unfortunate. It's a good program theoretically because it brings about an incentive for private investment in older parts of a city. It's a very advantageous program from that standpoint, but from the standpoint of benefiting our region, it's been skewed against us.

So, I guess if we had to say which one's not working very well, it's that one.

With regard to community development, community development has had rocky roads in many of the major cities. We think we could make some major improvements in our community development administration. It is administered by the city and it is providing for some very good infrastructure improvements. The vast majority of those funds do go for infrastructure improvements in deteriorating areas of the city, and they provide a supplement to what we are able to accomplish with our locally generated bond funds.

We also use about 15 percent of community development to provide additional assistance to youth who may be involved in juvenile delinquency and also provides some additional benefit services which are very good services.

But let me summarize by saying that the community development program, in many cases, has not worked as well as it should have because of excessive Federal regulation, and that's why I speak so strongly about the Revenue Sharing Program. If we could take all of the community development money and put it in the Revenue Sharing Program, that would be just fine and you would see a more cost-effective effort at participating in this partnership with local government.

Mr. Chapman. Thank you.

Mr. Price. My sentiments, Mr. Congressman, would probably be much the same. Dallas has benefited from a number of UDAG and HODAG grants and the community development block grants.

I think that they're definitely useful and they have their place. But you, as Mayor Whitmire said, have onerous regulations which almost prohibit us from the effective utilization of the intent and the design of those particular programs. And as a result, the restraints are sometimes too difficult—not so much for the counties; I'm speaking, really, for the cities. And, of course, the applications that I know the city of Dallas has made on numerous occasions in dealing with HODAG grants.

I think that since you're talking about UDAG being terminated, or that is the proposal, then maybe we should talk about, again, the reauthorization. And I'm going to try to get into the reauthorization of revenue sharing, and that ball is in your court. And maybe the building in or the deposits of those particular funds into that revenue sharing effort.

Ms. Whitmire. If I could just add, Commissioner Price and I did not have a chance to conspire prior to presenting our testimony today, but I think it's significant that both of us felt it appropriate to make a very strong statement about the urgent need for doing something now about the tax reform bill and doing something now about reauthorization. I think you hear both of us with those of our priority actions that we would hope to see in the short term at the Federal level.

Mr. Chapman. Thank you very much.

Mr. Frost. OK. Thank you very much for your testimony. It was excellent testimony, and I appreciate your patience in waiting for this point in the hearing. Thank you.

Our next panel is on health care, and if the four witnesses on health care could please come to the table, Mrs. Maria Elena Flood, Hon. Nancy McDonald, Dr. Ron Anderson, and Ms. Fredna White.

[Pause.]

I'm going to take these in a little bit different order than it says on the sheet. I'd like for Dr. Ron Anderson, the chief executive officer of Parkland Hospital to begin, and I would ask Dr. Anderson to summarize his testimony. And I would ask any of the witnesses who have time problems to let the staff know right away.

OK, Dr. Anderson?

STATEMENT OF RON J. ANDERSON, M.D., PRESIDENT AND CHIEF EXECUTIVE OFFICER, PARKLAND MEMORIAL HOSPITAL, DALLAS; AND CHAIRMAN, TEXAS BOARD OF HEALTH

Dr. Anderson. Mr. Chairman, I appreciate the opportunity to come before the committee today.

I am Dr. Ron Anderson, president and chief executive officer of Parkland Memorial Hospital. I'm also chairman of the Texas Board of Health. I have also served on the Texas statewide Task Force on Indigent Health Care.

Texas has long been a fiscally conservative State. Those of us who work in public hospitals are very aware of that situation. We've had to live within our budgets as required by the State constitution. We would expect the [illegible] the Federal Government.

I can assure you, gentlemen and ladies, that making tough budgetary decisions occur on a daily basis in our public hospitals.

It's coming very close to the time when, in this country, we will be rationing health care for the poor and those least capable of acquiring access within the system.

As a result of the Federal budget cuts you've heard so much about today, the interest on the growth, just the growth, in the last 5 years in the Federal deficit now exceeds the Federal cost of Medicare and Medicaid in this country.

We hear a lot about the spiraling cost of these two runaway health care programs, but I would suggest that there also is a runaway cost in the interest paid on the deficit.

So, I really encourage you to make those very brave decisions you must in order to bring us back into fiscal constraint.

The theory that tax cuts would stimulate sufficient growth and job creation to offset losses in services caused by the cuts themselves has not held up for the population I care for at Parkland Hospital. It may have helped others—I'm certainly better off today than many are. And I am sure that the defense industry is better off than it was 5 years ago. I'm also very, very sure that many, many people in the upper to middle class are doing very well.

We do have structural welfare, but we also have structural support for the wealthy and certain corporations and industries.

I think we are facing a political ideology disguised as fiscal policy. We are attacking structural poverty, as well we should. We need to teach people how to fish and not teach them just to be takers of fish. We have not done that.

We have spent a great deal of time, however, in blaming the poor for their predicament and not paying much attention to the history and how they got there and how we helped create the situation. I do think that we have to be attentive to getting rid of the structural poverty in this country, but by doing so, we have to be equitable and provide everyone with an opportunity for upward mobility.

I hope that as we talk about tax cuts someone will have the courage to realize that it's time to increase taxes if that's what it would take to get the job done.

I would hasten to add in the discussion about bonds and H.R. 3838, article 7 specifically says that while the Treasury would get some $16 billion in revenue from arbitrage rebate, the States and local governments would lose $40 to $60 billion.

I hope we don't cut taxes at the Federal level and dump those taxes back at the State and local level for the taxpayer. And remember, the taxpayer pays the Federal, the State, and the local taxes.

And basically, in our own county, I can tell you they're tired of the shifted responsibility without the shift in resources to deal with them.

I, like I think our Commissioner Price said, feel that the burden of these cuts are now coming upon our veterans, the elderly, and the poor, and many people are being displaced. At Parkland Memorial Hospital, I see this every day. I see it basically in increased volume. We run 90-plus percent occupancy while private hospitals are very much impacted by prospective payment. It makes it very hard for them to see charity patients and be competitive.

We have increased 20 percent in our deliveries over last year, in large part due to cuts in family planning budgets.

In 1986–87, the proposed reductions in the President's budget would have a devastating effect on the large, public teaching hospitals and many of the nonprofit hospitals that have remained true to their mission in this State. These effects are direct and indirect.

Parkland generates 23 percent of its gross patient services from the Medicare and Medicaid Programs. The rest of that, gentlemen, almost comes down to charity care from the taxpayers in this county. We are the only tax-supported public hospital here, and we can only collect 28 percent of our revenues. The State of Texas helps us care only for the poorest of the poor in the Medicaid programs or with the new indigent care legislation leaving public hospitals to do the rest.

The reductions in the indirect payment for medical education and the direct payment for medical education under Medicare will result, we think, in a $2 to $3 million loss to us at Parkland, just one hospital in this State, next year.

We think that the Secretary of Health and Human Services should honor Congress' request to develop a true and fair "disproportionate share" formula. Not the one that was published in December, which was a farce.

And we need to address the uncompensated care issue, not just the hospitals that care for a high Medicaid population. No public teaching hospital in Texas qualifies under current HCFA definitions of disproportionate care despite the fact that four of the major public hospitals do more acute charity care than the cost of the Medicaid Program throughout the entire State for hospital care. None of those hospitals qualified for disproportionate share by the current definition. Hardly a good faith effort by the administration.

I hope that Congress will take the lead and establish what a disproportionate share hospital truly is. Now, that's important in Texas because we're one of the most restrictive Medicaid States in the United States, being 48th lowest in the United States covering about 28 percent of the Federal poverty guideline population.

Most States have about 50 percent, and I think it's important to realize that we've made some substantial gains in this last year, to bring us up to the 28 percent.

The safety net in Texas is the public hospital, and it's a de facto safety net and it's certainly a very poor one.

The public teaching hospitals and nonprofit hospitals will serve the working poor. They need desperately, however, to upgrade and expand their facilities in order to do so. The irony of it is that the public hospital sits next to a private hospital with empty beds.

But there is no incentive with the present environment to let the poor in. Unless you have some money or a ticket to ride the train, you're not going to ride the train. The competitive strategy will not solve the problem of access for the indigent and the elderly in this community.

We just built an $80 million building program that our representatives here are very familiar with. But the present DRG capital adjustment would use a year prior to the time our investment came on line as a baseline and would penalize us for the capital payments—reinvestments here, which really passes this cost on to the local taxpayers.

The Federal Government is saying it does not recognize this as a legitimate cost of doing business. How absurd. Particularly, when you think about what happened to the steel industry and how we complain about not being able to compete with the technology of the Japanese.

The administration says it wants to shift more power and responsibility to the States. Yet, at the same time, it is literally undermining the ability of the State and local governments to solve serious problems, particularly through this budget and the Gramm-Rudman cuts.

In 1985, a session of the Texas Legislature enacted major reforms in the area of health care for the poor. The legislature has substantially enhanced the Texas Medicaid Program. And all in all, let me say that around 200 million new dollars came into the system. The hospitals in the State are still doing $1.3 billion in uncompensated care, twice the amount as a percentage of total services of individual hospitals in other States.

It's important for you to realize that the cuts alone in Medicaid for Texas in the proposed budget are $179 million and $14 million for administrative overhead. Texas has one of the best managed Medicaid programs in the country, with one of the lowest overheads of any program in the United States, and yet it's getting $14 million cutoff of its administrative costs.

This is really a no-good-deed-goes-unpunished type of a scenario. The State, while historically has not done enough, it is trying to expand support for indigent care and has recognized the importance of investment in its people. The recommended cuts attack this reform.

Let me emphasize the Women, Infants, and Children's Program. Through the help of Senator Parmer from Fort Worth, we did get 7 million new dollars in to enhance $95 million from the Federal Government, a program that each dollar spent saves $6 to $8 in the long-term cost to the taxpayers. That $7 million will virtually be wiped out by Gramm-Rudman over 2 years or it will be diminished by the WDA's failure to continue helping "equity" States such as Texas.

You're asking the States to do more. We're trying to do more. And then we're penalized for taking the lead in trying to do something even during a very austere State budgetary climate.

I think that we should not allow this Medicaid cap to occur. It's been defeated, by the way, by Congress two times, and I hope you'll have the courage to defeat it again. Particularly, because it hurts the Sun Belt States and the conservative States, and not so much because I think that we can't handle our own problems. We're trying to. But you take a State like New York which covers 79 percent of its poverty level population and you make some cuts and you come toward equity among the States. You won't be cutting fundamental services; you'll be cutting optional services.

How can you cut more from a family of four with an income $220 a month? That's what Senate bill 1 in this State covers.

Our Medicaid AFDC rates are very, very low. How can we cut, in Texas, more across the board without taking away from the poorest of the poor? I've heard the term "deserving poor." Who are they? I feel our people are just simply poor and they can't solve their own problems.

And I think we have to recognize that it's not fair for Texas to take the brunt of these across-the-board types of cuts.

The administration's budget also assumes the changes proposed on the Aid to Dependent Children that we talked about. Some $23 million is at stake.

Subsidy programs, housing programs, programs that help people be healthy are being cut also, and I expect a big increase in the number of people who will need a public hospital simply because we're taking away their ability to cope with an already very tough milieu.

I would point out maternal and child health block grants would remain at the 1985 funding level in Texas, despite increased costs and increased number of eligible people. This is on top of a 25-percent cut in 1981, and this will mean literally the loss of services to 10,000 low-income women and children in Texas.

The social services block grant will consolidate to save money. That's fine. This funds a variety of programs, including day care, child abuse services, in-home support services for the elderly, family violence shelters, and family planning services.

And this apparent increase in funding for these programs is very deceptive because another block grant, community services, will be eliminated altogether. The combination here is that in 1987, you'll be funded for these programs, $177.2 million compared to $178 million in fiscal year 1985. And that doesn't take into account inflation or the increased volume of services.

Particularly disturbing to me, as a physician and a State health officer, is the reduction in support for childhood immunization programs. Under the deficit reduction act, it is anticipated that Texas will lose $85,000 this fiscal year toward support of vaccinations, meaning that there will be 95,000 fewer doses of polio vaccine and 37,000 fewer doses of DPT vaccine for children in Texas to be innoculated with. An additional $115,000 will be cut in the 1987 budget from the President.

Every physician knows that probably the most cost effective preventive health intervention is vaccination. And we're cutting it. To me, this is not fiscal conservatism; this is fiscal irresponsibility.

In order to appreciate fully the cumulative impact of all these cutbacks on health care in Texas, they must be seen in the context of the milieu we're in, a disturbing outlook for the State's economic health.

Parkland and its hospital district is now in the process and dilemma, really, of trying to put together its budget. And as we look at this, we see a softening of local economy and regional economy. We see more residents without medical insurance. And these individuals and families will likely have to turn to Parkland for their care. But the beds are full. Who will pick up those who fall over the safety net and fall out of the safety net?

The number of AIDS patients and the financial impact of that will continue to increase, doubling, in fact, each year in these large urban centers.

More pregnant women will have to come to Parkland. We're now delivering approximately 14,000 per year; 9,500 were delivered in 1981 prior to the family planning cuts. Other hospitals are not experiencing this, only the hospital that care for the poor. Jeff Davis in Houston, No. 1 in the United States in deliveries. Parkland is No. 3, Los Angeles County is No. 2. All large, public hospitals, overflowing and overcrowded and in need of capital improvements to care for these women. Other hospital beds are sitting empty.There's something wrong with the system. It's irrational.

We only collect about 17 percent on that service. Those babies born will need Parkland for pediatric care, and by the end of this coming year, we will have to open our 200 beds to be able to handle our mandate from the county level.

Under the Gramm-Rudman-Hollings balanced budget legislation, Texas will lose $40 million this year, up to $300 million, and some estimates of $660 million, with the President's budget cuts. Not to mention the $210 million in revenue sharing.

Think for a moment, what will the taxpayers have to deal with? The cities, the counties, the independent school districts, the hospital districts, the State, the Federal Government. Everyone taxing that same individual. And I can tell you that all of that shoved back to the local community is shoved back on the taxpayer, and we should never let you really get away with saying that we're going to cut taxes in Washington. Not if they're going to be put back on the people in this community. They are not going to have real decreases in taxes, really, if we're going to keep the same level of services. Which comes to the point, perhaps, we cut services. And we're at that point, I think, in this State.

The oil and gas revenues have put the Texas budget into an even worse situation. You heard Governor White say we may have a $1 billion deficit in the State. We will not have a deficit. We will cut spending as we have to.

It is premature to say how this convergence of factors will affect our hospitals and our State. But I think I am a fiscal conservative. I think I have, maybe, a liberal heart, but I do think that we have to be wise in our investments. We have to be responsible to the taxpayer in our public programs.

But huge Federal deficits cannot be allowed, we agree. Wholesale, arbitrary cutbacks in effective programs are just as wrong when they affect the health of millions of Americans. And I believe it to be fiscally irresponsible if they are paying high dividends for generations to come.

These cuts will ultimately cripple many of the health and social services programs, and if we make short-term mistakes, it will have long-term consequences. We will not be able to replace them. And I don't believe it has to happen. There are alternatives.

First of all, we can balance the budget through a combination of appropriate spending cuts and, perhaps, tax increases. I'm not running for public office, so I'll say it: Tax increases and not mindless, across-the-board reductions.

Separate health care coverage. I think there should be separated health care coverage from the types of subsidies thought to be "welfare." We need to address the problem of the medically needy and uncompensated care in this country, and I think we can do so within a budget that's livable.

Allow welfare recipients to retain Medicaid coverage for some reasonable period of time after getting off welfare. The same would be true with the disabled. I know that several of our Dallas delegation have promoted that kind of legislation so that people don't have negative rewards for trying to become more independent. We should not create a situation where welfare is more attractive than work.

We need to reform the health insurance system to provide universal coverage, including catastrophic coverage, and we ought to basically depend a lot on public-private partnerships to accomplish this.

I think we ought to adopt a strategic plan for health care that will include health care objectives that can be met and that focus on outcome, not just vendor throughput. A lot of people tell you they need to have you increase health care spending because they are vendors; sure they'd like to see it increased.

We need to have public health objectives that we decide on as a nation, instead of being driven by the budget deficit decisions.

I think it's particularly important that we work to develop a program that will cover the industries, such as the service industries, agriculture, and the working poor. Perhaps it could be through a voucher or capitation system.

We need to invest in those health maintenance programs and preventive programs and scrutinize defense spending as much as we scrutinize the spending of health care dollars.

We need to increase funding for services that are high-cost problems to society; such as, Alzheimer's disease, long-term care, teenage pregnancy, and AIDS.

We need to increase support on the Federal level for technology assessment to see that we demand proof of real accomplishment, good purposes, at a reasonable cost.

We need to promote competition in health care without jeopardizing access for the poor and vital community services. And again, I think competition can be done with voucher systems.

I would like to believe that the proposed Federal budget cuts will stimulate the economic growth and job creation that everyone says it will. And that would all but eliminate the need for such programs such as Medicaid and community health centers and nutrition programs and the like.

My children also love to see Walt Disney movies.

Texas, with its minimal government, probusiness, progrowth environment, has been a laboratory of sorts for this type of economic theory. We have 2.6 million people below the Federal poverty level that do not have access to health care in this State. Unfortunately, many Texans fail to benefit from the growth that we've had in the major part of our society.

Some respected business economists contend that the ability of Texas to rebound in the postenergy era will depend upon high technology, education of our children, and the health of our citizens.

That's why, over the last 2 years, we've tried to make extensive inroads in reforms toward investing in human capital, and these reforms I believe now to be in jeopardy.

It is certainly a sad paradox that a discredited economic theory is now so fashionable in Washington and will thwart the efforts of the State to try to adjust to the new economic reality.

I would sum up by saying: I don't believe you can honestly claim concern about health care costs in a budget and continues to subsidize the tobacco industry. I don't believe you can talk about a profamily budget when you cut AFDC and maternal and child health block grants. I don't believe you can talk about an antitax budgets when you're taking away tax-exempt financing for local municipalities and hospitals, public and nonprofit. This is a great cost for no value to our local residents.

I think you also cannot say that the budget is probusiness unless you're talking about the defense industry and certain corporations that basically don't pay their fair share of taxes in this country.

You certainly cannot say it's probusiness when you're talking about small business, small business in blighted areas such as south Dallas or the family farm.

Thank you very much.

[Testimony resumes on p. 611.]

[The prepared statement of Dr. Anderson follows:]

PREPARED STATEMENT OF DR. RON J. ANDERSON

Mr. Chairman and members of the Committee, I am Dr. Ron J. Anderson, president and chief executive officer of Parkland Memorial Hospital in Dallas and chairman of the Texas Board of Health. I am also a member of the Texas Health and Human Services Coordinating Council and served on the executive committee of the Statewide Task Force on Indigent Health Care.

Texas has long been a fiscally conservative state, living within its budget as required by the state constitution. We should expect the same of the Federal Government. As a result of the 1982-83 tax cuts, the interest on the growth in the federal deficit exceeds the cost of the Medicare and the federal share of the Medicaid programs. The theory that the tax cuts would stimulate sufficient growth and job creation to offset the revenue lost through the tax cuts has obviously not held up.

We are facing the effects of political ideology disguised as fiscal policy. This administration attacks structural poverty by dismantling the structural support for the poor, and at the same time widening the gap between the rich and the poor. The very wealthy and the defense industries benefit at the expense of the nation's veterans, the elderly, and the working poor.

At Parkland Memorial Hospital, we see the effects of the budget cutbacks and misguided fiscal policies every day. Parkland is the public hospital for Dallas County and the primary teaching hospital for The University of Texas Health Science Center at Dallas. While private hospitals experience decreases in occupancy rates, Parkland has remained 80 to 90 per cent occupied. In fiscal year 1985, Parkland experienced a nearly 20 per cent increase in deliveries largely as a result of cutbacks in family planning programs and rising numbers of uninsured patients. Emergency Room and Outpatient visits continue to increase as more and more of the working poor are squeezed out of the private sector because of competitive pressures.

The proposed budget reductions for fiscal years 1986 and 1987 would adversely affect Parkland and other large urban public teaching hospitals, as well as some private non-profit hospitals, both directly and indirectly.

Parkland generates 23 per cent of its gross patient service revenue from Medicare and Medicaid. The hospital would be directly hurt by major reductions in the supplementary Medicare payments for the direct and indirect costs of medical education. As the only tax-supported public hospital in Dallas County, Parkland primarily serves low-income and indigent patients and is able to collect only 28 per cent of its patient service revenue. Yet these patients typically have multiple medical and social problems and require more of the hospital's resources than the patients generally seen at large private hospitals. The supplementary payments for the direct and indirect costs of medical education serve as a proxy in lieu of a true supplement to account for a disproportionate share of low-income patients and lack of a severity-of-illness index.

If the Secretary of Health and Human Services implemented a fair and reasonable formula for Medicare payments that takes into account the special role of the "disproportionate share" hospitals, then the reductions in the payments for the direct and indirect costs of medical education would not have as significant an adverse impact on the public teaching hospitals. Despite the Congressional mandate, the Secretary has failed to devise such a payment formula, however, and the Congress ought to enact specific rules to ensure that these safety net hospitals remain viable. Any formula that is adopted should take into consideration more than simply the proportion of Medicaid patients treated at a hospital, since the Medicaid programs among the states vary greatly.

The Texas Medicaid program is one of the most restrictive in the country, ranking near the bottom in terms of per capita spending and the proportion of the poverty population that is covered by the program. The Texas Medicaid program covers only about 28 per cent of the poverty level population in the state, compared to more than 50 per cent nationally. In fact, Parkland and the other four largest public teaching hospitals in Texas provide more uncompensated care than the entire Texas Medicaid program for hospital care. These public hospitals, supported primarily by local taxes, are the de facto safety net in Texas, more so than Medicaid. Now, the safety net is full.

The public teaching hospitals and the private non-profit hospitals that still serve large numbers of the working poor desperately need to upgrade and expand their facilities in order to serve their communities. The Administration's proposals, however, would make it increasingly difficult for these hospitals to gain access to capital. Parkland, for example, is nearing completion of an $80-million expansion and renovation project financed through general obligation bonds. The President's DRG capital adjustment would use a year before our investment as a baseline. This would penalize us and many other hospitals that have passed muster with local taxpayers. The Federal Government is now saying it does not recognize this investment as a legitimate cost of doing business. How absurd.

In addition, the Administration-backed tax bill attacks tax-exempt financing, which would have a devastating effect on public hospitals and all local government entities. This would either stop capital investment -- job creation -- dead in its tracks, or it would mean a huge cost shift to local taxpayers.

The Administration says that it wants to shift more power and responsibility to the states, yet at the same time it is undermining the ability of state and local government to address serious problems.

In the 1985 session, the Texas Legislature enacted major reforms in the area of health care for the poor. The Legislature substantially enhanced the Texas Medicaid program, including coverage for low-income intact families, as well as for pregnant women and children. The landmark legislation also invested money in programs to improve access for the poor to primary health care and to prenatal care specifically. Altogether, the package of legislation amounted to an infusion of more than $200 million into health care for the poor. It was a major step for Texas, yet it was done in a fiscally conservative, responsible manner that will save the state money in the long run.

The Administration now is proposing several changes to achieve a short-term savings in the Medicaid program. In payments to doctors, hospitals, and other health care providers, the President's budget proposes to limit each state's FY 1987 federal Medicaid funds to 109 per cent of the amount that state received in FY 1985. After 1987, the state's share of federal funding for provider payments would be indexed to the medical care component of the Consumer Price Index (CPI).

Under this proposal, Texas would receive about $936 million for Medicaid, or about $179 million fewer federal dollars in FY 1987 than it anticipated, and $193 million short of the amount needed to maintain current services.

The magnitude of this funding discrepancy is due in part to the increase in caseload brought about by the Texas indigent health care reforms. Since FY 1985 expenditures did not reflect the indigent health care expansion, a cap based on 1985 expenditures would essentially make the state responsible for the entire cost of providing care to these new groups.

Placing a cap on federal Medicaid payments for FY 1987 that is only 9 per cent above the federal government's share of FY 1985 spending does not even account for inflation in prices for medical care over those two years. Furthermore, an across-the-board cap hits hardest those states, like Texas, with low Medicaid benefits and stringent eligibility requirements and precludes any improvements such as indigent health care and catastrophic illness inititatives.

For a state like New York, which covers 79 per cent of its poverty-level population and has the second highest per capita Medicaid cost in the country, the loss of federal Medicaid dollars could be absorbed by reducing services not required under federal law and lowering eligibility levels, without endangering the health of the poorest of the poor. Texas, however, would have few options for reducing costs that would not have severe consequences for indigent people who do not have adequate access to medical care.

Why penalize the states that have been the most conservative spenders of federal dollars? The Congress should give states like Texas three years in which to expand their Medicaid programs to cover at least 50 per cent of the poverty-level population, with an emphasis on cost-effective primary and maternal and child health programs.

For Parkland Memorial Hospital the combined direct loss of Medicare and Medicaid funds in FY 1987 would be almost $3 million. (see attached schedule).

The Administration's Medicaid budget also assumes that changes proposed in the budget for Aid to Families with Dependent Children will result in Medicaid savings. Since almost all persons receiving AFDC are eligible for Medicaid, restricting AFDC eligibility requirements would have the effect of reducing the number of persons eligible for Medicaid. Obviously, these unfortunate families will continue to require medical care, and it will be the responsibility of state and local taxpayers to pay for it.

The President's budget proposes to cut the federal Medicaid match for all administrative expenditures to 50-50. Currently, Texas receives different matches for different activities. For example, the federal-state match is 90-10 for computer services and 75-25 for both family planning administrative costs and physician salaries. The change to a straight 50-50 match would result in a loss of $14 million to Texas.

On top of these spending cutbacks, which will limit the ability of public hospitals to carry out their multiple missions of patient care, teaching, research, and community service, the Administration is proposing other health care and social service cutbacks that will likely generate increased usage of medical services at the public hospitals.

Under the President's budget, Maternal & Child Health Block Grants would remain at the 1985 funding level, despite increased costs and increased numbers of eligible persons. This, on top of a 25 per cent cut in 1981, will mean a loss of services to about 10,000 low-income women and children in Texas.

The special supplemental food program for Women, Infants & Children (WIC) in Texas would receive a funding increase of 3.6 per cent under the proposed budget, but this is another program that was substantially cut in 1981.

The Social Services Block Grant will consolidate funding for a variety of programs, including day care, child abuse services, in-home support services for the elderly, family violence shelters, and family planning services. The apparent increase in funding for these programs is deceptive because another block grant, Community Services, would be eliminated altogether. The Social Services grant would be expected to absorb some of those services, such as emergency food assistance, neighborhood centers, adult education, and other local services. The proposed funding for the Social Services Block grant for Texas in FY 1987 is $177.2 million, compared to $178.8 million in FY 1985.

Particularly disturbing to me, as both a physician and state health official, is the reduction in support for childhood immunization programs. Under the deficit reduction act, it is anticipated that Texas will lose about $85,000 this fiscal year for vaccines, meaning that there will be more than 95,000 fewer doses of polio vaccine and more than 37,000 fewer doses of DTP vaccine for the innoculation of Texas school children. An additional $115,000 would be cut out [illegible] immunizations in the President's FY 1987 budget. Every physician knows that innoculation programs are among the most cost-effective health programs that can be devised. You could hardly find a more blatant example of fiscal idiocy.

In order to appreciate fully the cumulative impact of all these cutbacks on health care in Texas, they must be seen in the context of the disturbing outlook for the state's economic health. Parkland hospital's situation vividly illustrates the dilemma facing communities throughout the state.

As we enter the new budgeting cycle at Parkland, we know that the hospital will be very much affected by factors beyond its control. The softening of the local and regional economy will leave more area residents without medical insurance, and these individuals and families will likely turn to Parkland for their medical care. Historically, it is in hard economic times, that Parkland is needed the most. The number of AIDS patients and the financial impact of that will continue to increase. More pregnant women will seek care at Parkland and because of the low collection rate for these patients, this trend will keep the hospital's overall collection rate low. We also will experience much higher patient volumes in Pediatrics, reflecting the delayed effects of the sharp increase in deliveries at

Parkland. And by the end of this calendar year, the hospital's renovation program will be largely finished and we will have 200 more beds to operate than we have now.

Under the Gramm-Rudman-Hollings balanced budget legislation, Texas could lose $40 million in federal funds this fiscal year and anywhere from $300 million to $660 million next fiscal year. The elimination of revenue sharing would add $210 million to that.

Revenue losses of that magnitude, plus the loss of oil and gas revenues will throw the Texas budget picture into total disarray, with funding for health and human services thrust into intense competition with all the other pressing needs of the state.

It is premature to say specifically how the convergence of all these adverse trends will affect next year's hospital district revenues or for that matter the hospital district tax rate, but the volume of services will not diminish and the challenge to provide high quality health care in the public sector will only intensify.

I consider myself a fiscal conservative, and I am as concerned about the huge federal budget deficits as anyone, but wholesale, arbitrary cutbacks in effective programs that improve the health of millions of Americans are fiscally irresponsible. These cuts, which will ultimately cripple many of these health and social service programs, will produce short-term gains and long-term tragedies. They will also cost more in the long run, long after the current policy makers have sown the seeds.

It doesn't have to be this way. There are alternatives. A responsible, fiscally conservative approach would:

* Balance the budget through a combination of spending cuts and tax increases over several years, without mindless, across-the-board reductions.

* Separate health care coverage from other subsidies.

* Allow welfare recipients to retain their Medicaid coverage for some reasonable period after getting off welfare.

* Reform the health insurance system to provide universal coverage, including catastrophic injuries and illnesses, through a combination public and private program.

* Adopt a strategic plan for health care that includes specific health objectives.

* Invest in preventive health and health maintenance programs for the poor and working poor.

* Scrutinize defense spending as much as health spending.

* Increase funding for health services research on high-cost problems such as, Alzheimer's disease, long-term care, teenage pregnancy, and AIDS.

* Increase support for technology assessment.

* Promote competition in health care without jeopardizing access for the poor and vital community services.

I would like to believe that the proposed federal budget cuts will stimulate economic growth and job creation, and that all this will nearly eliminate the need for programs like Medicaid, community health centers, nutrition programs, and the like. Texas, with its minimal government, pro-business, pro-growth environment has been a laboratory of sorts for that economic theory. Unfortunately, many Texans failed to benefit from the dynamic growth of recent years.

Some respected business economists contend that the ability of Texas to rebound in the post-energy era will hinge on the health and education of its people. That is why over the last two years, Texas has begun to emphasize investment in human capital through reforms in education and health care for the poor. It is certainly a sad paradox that a discredited economic theory now fashionable in Washington may thwart the efforts of Texas to adjust to the new economic reality.

DALLAS COUNTY HOSPITAL DISTRICT
ESTIMATED EFFECT OF PRESIDENT'S PROPOSED BUDGET REDUCTIONS RELATED TO MEDICARE/MEDICAID
(In Millions)

	PMH 1985 AMOUNT	PRES. REAGAN'S 1987 BUDGET PROPOSAL	AMOUNT OF CHANGE	COMMENTS
Medicare				
Direct Education	$ 1.6	$ 1.4	$ (.2)	Decrease Funding for Allied Health Program as well as Medical Education.
Indirect Education	4.3	2.3	(2.0)	Will shift funding of Medical Education from federal level to local & private level, with possible adverse effects on Physician Training & Patient Services.
DRG Amounts	12.8	13.0	.2	Inflation, at present rates, will exceed 2% suggested increase.
Disproportionate Share	-0-	?		Although mandated by Congress, Administration refuses to consider this matter on an equitable basis.
Delayed Payment	-0-	(.6)	(.6)	Could impair financial viability and will decrease cash flow.
Subtotal Medicare	$ 18.7	$ 16.1	$ (2.6)	
Medicaid	7.3	7.0	(.3)	Program is already underfunded in Texas and most other States. Further reduction will reduce access to Health care for the poor.
Total Programs	$ 26.0	$ 23.1	$ (2.9)	

Note: Above calculations are based on actual operating data for Parkland Hospital during FY 1985, and the modifications proposed by President Reagan, as summarized in AAMC Weekly Report #86-5, dated February 6, 1986. 610

Mr. **Frost**. OK, our next witness will be Maria Elena Flood, Texas Tech School of Medicine. Mrs. Flood.

STATEMENT OF MARIA ELENA A. FLOOD, TEXAS TECH SCHOOL OF MEDICINE

Mrs. **Flood**. Thank you.

Mr. Chairman and honorable members of the committee, on the behalf of the providers of health care and specifically from the Maternal and Child Health Services, I appreciate the opportunity to present to this committee the realities of the situation here in our State today.

Adequate maternal and child health care is the key to the future. It's been recognized throughout the world and it's well documented. In 1979, the U.S. Public Health Service established 9 deaths per 1,000 live births as a goal this Nation should be able to meet by 1990. Current analyses, reviewing the 1983 and 1984 deaths reflect that the goal will not be reached by 1990.

The complex social issues of today make it difficult to pinpoint all possible contributing factors. The issues of substance abuse, the teenage pregnancy rate, and the complex racial nature of our population have been cited.

It is not unrelated that there have been decreases in funding for maternal and child health care and family planning services in the past years.

Poverty and minority status present the most impressive correlation to the risk of low birth rate infants and, therefore, infant mortality. And the connection between infant mortality and the increased risks of handicapping conditions and developmental problems for infants born of economically deprived women is documented in studies that began in this country as early as 1912 in one that was undertaken by the then-Federal Children's Bureau.

Recognizing our responsibilities to the poverty population and the medically underserved in Texas, we undertook extensive analysis of the problems in our task force for indigent health care.

A critical need was found for prenatal care centers and delivery services for pregnant women in Texas. And the current extensive use of extremely intensive neonatal and intensive care services and reliance on hospital emergency rooms for basic and primary care would be reduced by funding proper prenatal and delivery services for pregnant women in Texas.

The President's budget reflects level funding for maternal and child health care programs, but in reality, the impact of the Gramm-Rudman-Hollings at maximum causes a 10-percent reduction in funding through the block grants for maternal and child health and returns us to an 1984 fiscal year funding level.

Dr. Anderson has defined the impact of the President's budget and other proposals for the other specific programs that also have impact in maternal and child health efforts in this State.

I think that Representative McDonald may address some of the same issues.

Today, in our State, as a result of responsible participation by both public and private sectors, the representatives of our health

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care delivery system, local and State government leaders, we have embarked on a coordinated plan to address our problems.

During the development of our State's indigent health care programs, it is essential that the Federal support be maintained at a level commensurate to meet the demands of the growing poor and minority populations.

The current and projected State resources that have been discussed today must be given consideration. Demands on current resources is compounded by the fact that almost 2 million persons in our State are not covered by any health insurance. And today in Texas, 50 percent of our poverty population without health insurance is Hispanic and 22 percent is black.

The current Hispanic birth rate in Texas continues to be higher than other population groups, which are tending to now maintain current levels. And we are experiencing a continuing immigration of Hispanics from the Caribbean, South and Central American countries, as well as Mexico. It is predicted that minorities will constitute 50 percent of this State's population in 1990, and by the year 2000, the Mexican-American and other Hispanic population of the State of Texas will reach 40 percent.

The status of this group as a majority of the labor force in our border communities today and in the entire State by the year 2000 shapes the present and future economic development for Texas and, indeed, gentlemen, for the entire Nation. Key to the economic stability of our State is the health status and the subsequent educational development of our minority population to meet the challenges of new employment opportunities in our technological future.

As a member of the Texas State Board of Education, I represent a district extending almost the entire length of our border with Mexico—from El Paso to McAllen—I am able to present to you a dual perspective. The success of educational programs is related to the health status of the student. Their health depends on the level of maternal and child health care security. The need for the stability of resources is crucial if we are to accomplish the goals of maternal and child health care programs in this State and also the educational goals that we have begun to address with millions of dollars dedicated in the last sessions of our legislature.

In El Paso, 650 miles away from Dallas, we feel we are the window for the future of Texas and the Southwest, in general. In our community, with a population of 525,000, our public hospital, Thomason General, with just 235 beds, has experienced a 40-percent increase in births since 1981, and in 1985, there was an astounding increase of 15 percent to a level of 4,283 births in that facility.

However, in the past 3 years, El Paso County has seen a drop in the admitting of pregnant women who have received no prenatal care to R.A. Thomason Hospital, from 40 percent, perhaps the highest in the State, to approximately 17 percent, which may be now the lowest in the State.

This has been accomplished through the coordinated efforts of all area health care entities, by the sectors in the Texas Department of Health, the hospital districts, Texas Tech School of Medicine's efforts. However, the impact of the growing numbers of unfunded patients, including illegal aliens and commuters from Mexico, is depleting the resources of all border cities providing maternal care and child care services.

Our neighboring Mexican city, Cuidad Juarez, has a population of over 1 million. Its serious economic stresses adversely affect our intertwining border economies. In El Paso, our poverty rate is 20 percent, almost twice that of Dallas. The Lower Rio Grande Valley at present has a poverty rate of much higher proportions. The cities of this valley also face the impact of the border and our neighbor, Mexico.

We request your consideration of the growing population of poverty level and the economy of this State and border issues as they impact on a proposal from the President for level funding in maternal and child health care programs.

I have been asked to comment on the potential we see for a national role in health planning. As we strive to address the multifaceted problems of health care delivery, we feel that there should be a continuing Federal role in health planning, however, not in the direct delivery of health care services.

A coordinated plan and approach addressing a diversity of developing State health care systems throughout the country and a concerted attention to the binational border in health planning issues is most appropriately done at the Federal level.

Yes, gentlemen, I believe there is a role for Federal health planning.

Thank you for your time.

Mr. FROST. Thank you very much.

And we will, at this point, hear from Hon. Nancy McDonald, a member of the Texas House of Representatives. Representative McDonald.

STATEMENT OF HON. NANCY McDONALD, TEXAS HOUSE OF REPRESENTATIVES, DISTRICT 73

Ms. McDONALD. Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you today,

As I look at the health care system in Texas from the perspective both as a legislator and as a registered nurse, I am deeply concerned about the effects of the President's budget proposal, both alone and in combination with the Gramm-Rudman-Hollings thrust. I think these proposals will hit this State particularly hard at a particularly bad time.

You have heard very adequately all our statistics about exactly what will happen to our programs that we now have, and I want to point out to you that Texas has done a very good job in the past and in this recent legislature in making a system, a whole structure, to answer our needs. We are proud of the fact that we can be independent, that we can try to help ourselves. We took these problems in the task force and we brought forth out of that task force legislation which would address these needs, the needs of the very poorest of the poor.

But one of the important building blocks of this whole structure was the Medicaid Program, that partnership that we had with the Federal Government. And now, when we are faced at a time, when we are seeing more increases in our Medicaid population because of the increased poverty in the State, because of all the reasons you heard today, the economy declining, the past, our problems in growth, we are facing a growing population in this medically indigent group. This is coming at a time when we are not prepared to take on that extra care.

Our whole program, as funded by the State, is designed to support the best use of the health dollar. That's like an economic system where we attack all the areas, like we want to emphasize prevention. We have a primary care system we want to put in place. We want to reach those 90 counties that have no primary care system. We want to help our public hospitals that have such a large, disproportionate share.

We have set into effect State funding for the maternal child's program. Also, once again, targeting those populations which are in most need.

At the same time, because of our particular circumstances, this State is increasing those populations. Our elderly population is increasing our young population is increasing. And we know in the health care field that those are the two populations that need the most care, and what we will be forced to go back to is furnishing care. We have that commitment. It is the most tremendous commitment, but it will be the most expensive care because these people will only be able to be taken care of in the emergency system in the public hospitals and in the acute care system; because of lack of funds, we won't be able to put into effect the prevention aspect that is so important.

And so, I say to you now that the Federal Medicaid cutbacks are really going to freeze us in this task. We won't have an opportunity to begin to put into effect this new program that we have worked on so hard in our State legislature, and we have used county governments, city governments, everyone combined with the partnership of the Federal Government to meet this problem. And now, before we're even up to bat, we're going to have three strikes against us.

I wanted to focus especially on the Medicaid cap. I think Dr. Anderson has addressed that very well. It is, as I said, going to be devastating to our health care budget in Texas, but we cannot forget, when we talk about health care, we're not talking about the problems of another industry failing, another factory closing; we're talking about the very life of our people, our very vitality in an economy which needs productive citizens.

And although the health care of the indigent, we may not think of Texas health care of the full State, it does. No one can stand alone. In the State of Texas, we have a border with a Third World population.

What Dr. Anderson has brought out so succinctly about diseases and control of diseases that know no borders, about the importance of the immunization programs, all of those things we must consider when we are talking about health care dollars in Texas.

We cannot ignore the facts. We all know the problems of Mexico, and they will be our problems, too. Health care knows no borders.

But most of all, I think what I want to address to you here is just to remind the Federal Government that we all had agreed in the past that Medicaid was the most humane way to address the problem of serving the very poorest of the poor.

And if, in fact, we are to find that through the budget process the Federal Government is going to depart from this principle, then I ask that we remove this whole system from the budget process and debate where it should be, as a separate article.

If Medicaid is to be withdrawn, then I would like to debate it on the principle and remind the Federal Government that I think we all have a very important commitment here in health care, to our State and to our Nation. Thank you.

[Testimony resumes on p. 631.]

[The prepared statement of Ms. McDonald follows:]

PREPARED STATEMENT OF HON. NANCY MCDONALD

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you today to discuss the impact of the President's fiscal year 1986 budget on Medicaid and indigent health care in Texas. I'm certain that as you are traveling around the country, you are hearing testimony similar to that which has been given before you today. I'm sure that as budget committee members, you have had your fill of state and local administrators and officials crying, "Don't do this to us. Whatever it is that you are doing. So as not to surprise you too much, I too plan to join in this chorus."

Before I do so, however, I would like to focus on this state's unique indigent health care system. Texas has historically operated an austere health program for its low income citizens, so austere in fact that we found that too many were slipping through the cracks. Recently, we enacted and are now implementing landmark legislation to help us address some of the most serious of our needs. This new program too is quite conservative.

I also want to discuss some other changes that are occurring in Texas today: economic and demographic changes that are increasing our need to have a stable and effective indigent health care program.

As I discuss these characteristics and trends in Texas, I think you will see that the president's FY87 budget either alone or in combination with proposed FY86 automatic cuts under Gramm-Rudman-Hollings will have a deadly effect on this state. These changes will hit us particularly hard at a particularly bad time. The President's proposal will keep us from moving foward in our efforts to address already unmet needs. More than that, it will send us hurtling backwards. It will burden us with a greater demand for services and leave crumbled and abandoned those tools and means we had with which to meet that demand.

Indigent Health Care in Texas

Texas has maintained a relatively restricted program for indigent health care. At the state level, we have primarily relied upon Medicaid to address our needs in this area, although we have also operated limited maternal and child health, crippled children's and dental programs for low income Texans.

Our Medicaid program, too, is a restrictive one. Texas citizens must have an income that is 25 percent of the federal poverty level or below in order to receive Medicaid benefits. A two parent family of four must make $211 per month or less than $3,000 per year in order to qualify.

Others have stepped in to provide additional health care for the state's poor. Many Texas counties and cities operate public hospitals. Hospital districts have been established in many parts of the state. Private facilities and social service agencies: all of these have supported Texas' underinsured or uninsured indigent population.

The Indigent Health Care Task Force

In 1984 a 71-member blue ribbon Task Force on Indigent Health Care found the following to characterize the state of indigent health care in Texas:

--Large numbers of Texans can easily be considered medically indigent. More than 1.7 million Texans are totally without medical insurance. Even more may be considered underinsured.

--There is no uniformity statewide in the definition of indigency and therefore no consistency in service delivery to poor patients.

--Financing of charity care is disproportionate. Public teaching and private, non-profit hospitals and metropolitan areas bear the lion's share of the burden of providing care. Taxpayers in communities with public hospitals often pay the cost of providing indigent care to residents in surrounding counties. Paying patients or medical facilities often subsidize large amounts of uncompensated care.

--Indigent Texans experience a critical lack of preventive, primary and maternal and child health services. These services, however, offer a significant payoff by minimizing risk of expensive intensive emergency care or long term care.

--The ability of public hospitals and private, non-profit charity hospitals to continue to provide high quality care is seriously threatened.

The 1985 Indigent Health Care Initiative

Legislative proposals based on the task force findings were introduced and after much debate enacted in May and June of 1985. In general, the legislation is designed to:

--Extend health insurance for the indigent population.

--Improve uniformity by defining eligibility for charity care.

--Achieve greater equity by distributing the burden of providing and financing indigent health care.

--Maximize the utilization of existing facilities to improve access to health care.

--Increase the availability of maternal and primary services to reduce the unnecessary utilization of high cost care.

--Preserve the ability of public facilities to provide high quality care to indigents.

Texas law now clearly identifies the responsibilities of counties, public hospitals and hospital districts. Even those counties without public hospitals are now required to provide some basic services for residents who meet the AFDC/Medicaid guidelines but who are categorically ineligible for the benefits. We estimate that up to 70,000 single persons and childless couples may now qualify for these mostly hospital services.

A new primary health care program in the state represents our effort to establish a framework for the provision of basic preventive and maintenance services. This program targets high risk individuals and areas and covers those without access to any other health benefits. Up to 160,000 patients may qualify for this program.

Our highest priority has been the new maternal and child health program authorized under the Maternal and Infant Health Improvement Act (MIHIA). This initiative provides perinatal services to high risk women and infants with incomes up to 100 percent of the poverty level and who are non Medicaid eligible.

Our indigent health care initiative also includes expansion of our Women, Infants and Children (WIC) program, as well as expansion of the eligibility criteria for Medicaid. Three new categories of eligibility were added to Medicaid:

1. Pregnant women who would be eligible for AFDC on the birth of the child.

2. Pregnant women who meet AFDC financial guidelines.

3. Children in two parent families who meet AFDC financial guidelines.

We also established a medically needy program to provide Medicaid coverage to pregnant women and children with income which when medical bills are deducted fall only slightly above 25 percent of the poverty level. Additional funds were also appropriated for assistance to so-called disproportionate share hospitals, those which provide relatively large amounts of indigent care.

The Texas Legislature appropriated $70 million dollars for FY86 and FY87 to fund this entire package. Additionally we allocated $11.2 million for the Medicaid expansion.

I am proud of these new programs. This Texas initiative establishes the structure and the mechanisms for broadly addressing our indigent health care needs. It focuses on high priority services and citizens, and it uses dollars wisely and humanely—to deliver maximum services in the most efficient manner.

The program, however, is seriously underfunded. Even the funding we scraped together during the last Legislature may not be available to us again. Federal and state budget crunches may jeopardize this program, and Texas citizens know that well-thought out structures and mechanisms are meaningless without adequate funding.

The Federal Budget Proposals

The President's proposed FY87 budget as well as potential FY86 Gramm-Rudman-Hollings cuts seriously threaten our indigent health care program. These proposals will have both direct and indirect effects on health care in Texas.

Medicaid

Both the proposed cap on Medicaid and the changes in the administrative formulas will adversely affect Texas. The Medicaid cap, in particular, will seriously damage not only our attempts to implement a new initiative, but our ability to meet the needs created by our older, more restrictive program.

A 9 percent increase over 1985 levels appears to be a moderate proposal. In Texas, however, once you account for inflation and for the recent mostly federally mandated expansion, you find that this level will leave us $179 million dollars short of meeting our needs for FY87 alone. This $179 million dollar shortfall is 17 percent less than what we need in Texas to meet our responsibilities FOR NEXT YEAR. You certainly are not giving us much time.

I cannot emphasize enough how devastating this cap will be to the state. Like an across the board cut, a cap is irresponsible. It disproportionately punishes those states like Texas that have historically maintained conservative programs.

For years we have really saved the federal government money. Whereas Texas contains 7.5 percent of this country's poor, it has received only 3.4 percent of U.S. Medicaid dollars. In contrast, New York contains 8.5 percent of the nation's poor and has received 18.3 percent of these federal monies. Now, as Texas seeks to expand its program in a responsible manner, the federal government proposes a cap.

A cap that will freeze us in our historical position among the handful of states that do little for even the poorest of their poor. A cap that leaves us with few options for cutting costs. We cannot lower our eligibility level, and we cannot cut back on services. Even our expansions are mostly federally mandated. We can cut little through cost savings measures, and we are already doing that in order to fund our medically needy program.

A cap that only serves to shift costs to states, local governments, local communities and local hospitals and threatens their financial viability. A cap that will freeze Texas in the past.

The federal proposal provides for a $300 million hardship fund for those
states that suffer the most from this program. I submit to you that Texas could virtually eat this $300 million dollars for lunch!

The change in the administrative formula for Medicaid will cost the state an additional $14 million dollars in FY87. The grand total for the Medicaid impact alone for Texas next year is $193 million dollars.

This is $193 million dollars off a bare bones budget in this state. Texas knows now, as the whole country is beginning to learn, that there is no such thing as an exempt program. The federal government is cutting these programs now—if not in March 86 then in Sept. 86. Clearly, nothing is exempt.

While I'm most concerned with Medicaid, I also want to give some examples of other budget items that will effect in some cases more indirectly our ability to provide adequate health care to low income Texans.

Maternal and Child Health Block Grant

We expect to receive funding for this program at FY85 levels with no accounting for two years of increased costs. In addition, proposed Gramm-Rudman-Hollings cuts will leave us with almost $1 million dollars less than we anticipated for FY86. Because of that $1 million cut, we will serve 10,000 fewer women and infants than we expected.

This cut is one of the most discouraging. As most Texans now know, maternal and child health is one of the best health care investments available.

Social Services Block Grants

The budget increase reflected for social services block grants is misleading for two reasons. First, it is an increase over FY86 levels only after automatic cuts are made March 1.' It is not an increase over original FY86 appropriations. Second, any increase would be more than offset by the absorption of the community services block grant program into this one. For example, the real cut in this program will adversely affect family planning services and employment services for AFDC recipients.

Health Professions Education and Training

Traditionally, teaching hospitals have been a major source of health care for this state's poor. In order to survive the crippling effects of writing off millions of dollars in uncompensated care, these hospitals have relied partly on education and training money for their survival. Texas Tech University writes off approximately $10.2 million dollars a year in uncompensated care. It can only afford to do so if there is funding from elsewhere.

Community Health Centers

Similarly, community health centers have served a vital function by providing care to many Texas indigents. Any cuts to these centers including the $21 million dollar proposed recission will also adversely affect this state's ability to provide indigent health care.

AFDC

The administration has proposed eliminating eligibility for AFDC and therefore Medicaid benefits for single, adolescent mothers who do not live with their parents. This program perhaps best illustrates the effects that federal cutbacks will have on this state. By reducing federal support, the administration's proposals strain both our new programs and our state and local resources. In one year with these cuts, the administration will create a demand for services that we had no way of anticipating.

Simultaneously, cuts to health and other social service programs will rob us of the tools we do have to combat the problems of the poor. This teenage mother whose parents' income is perhaps $300 a month now will have no access to family planning services. No medical care for herself or her infant and no access to job training programs. The federal proposal is simply creating dependence. This woman and her child will need health care, food and other assistance. Texas citizens will pay for this one way or another if not through federal taxes then through state or local taxes or by increased medical bills.

Texas trends

Economic and demographic trends in Texas further compound the difficulties we will face in FY86 and FY87 if these federal budget proposals are enacted. Contrary to the myth, Texas is not the land of J.R. and conspicuous consumption. Those of you who may have heard of this state's budget surpluses have not heard much news from Texas in recent years. We squeezed everything we could to enact a budget for fiscal year 86 and 87. When the Legislature reconvenes next January, we will likely be faced with a major revenue shortfall. Recent declines in oil prices not only decrease revenues coming into Texas, they increase the need for health care and other services for those who lose their jobs. Certain parts of the state will be particularly hard hit by federal budget cuts. The border area, for example, where approximately 30 percent of the population lives below the poverty level will suffer greatly. With fewer local resources to pick up the slack left by federal and state government, the border region has another special problem. It provides millions of dollars per year in uncompensated health care for illegal aliens. Thomason General Hospital in El Paso County estimates that it may write off $6 million dollars per year in care it provides to non U.S. citizens.

This region - the Ellis Island of the South - subsidizes all kinds of social service programs for illegal aliens as well as legal migrants and immigrants. Border residents and communities pay the cost of programs and problems that are both national and international in scope.

Texas trends also point to greater needs and fewer resources. This is borne out again when you examine demographic changes. The trend in Texas as in the rest of the country is toward a larger number of very young and very old citizens. We all know that these groups are often the most demanding on health care systems. Simultaneously, they also are the most likely to require subsidized care.

Summary

To briefly summarize, Texas has a unique new program to address its indigent health care needs. It is a reasonable and responsible package designed to maximize the use of state, local and federal dollars to buy the best most effective health care possible for those that need it most. It is a state-initiated program whereby we are trying to approach and solve our problems our way, building on the resources and commitment of localities, the state and the federal government. This program is necessary to guarantee the survival of our public and nonprofit hospitals. In particular, it is also necessary in these times to insure the vitality of the state and its citizens.

The President's FY86 budget will cripple our efforts in this area both directly and indirectly. Directly, through a Medicaid cap that freezes this state in the past. A cap that prevents us from following through on our efforts to bring the state into the future in a responsible manner. Indirectly, federal proposals will further increase the demand for our programs by withholding in the first year monies we counted on to help us meet our original anticipated needs. At the same time, Texas trends are further creating demands for services and strains on resources.

Conclusion

As I see it, two things are certain. First, health care needs will not diminish. As a registered nurse, I know that people will not stop getting sick because there are fewer federal or state funds. People cannot and will not go without health care, and we will pay for them one way or another. Second, this state will see dramatic federal cuts over the next two years. It is critical that we minimize some of the effects of these cuts, or we will have a crisis of some magnitude in the next two years. I urge you to help us face this by spreading these cuts among all federal programs. The location of cuts is not mandated by this process as it is by Gramm-Rudman-Hollings.

I'm worried.

I'm worried about localities that cannot shoulder a greater burden so suddenly.

I'm worried about my county where taxes during the last three years have been raised 24 percent, 10 percent and 5 percent to pay health costs.

I'm worried about hospitals, particularly about private, nonprofit and public hospitals. We have relied heavily on these facilities. We will see some of them closing their doors.

I'm worried about state government. Health care is not the only program we fund, and it is not the only one bearing down on us now.

I'm worried about cuts that are coming too hard and too fast.

I'm worried about the vitality of our citizenry and the economic viability of our state.

I'm also worried about the long term commitment of the federal government.

I'm bothered by the across-the-board cuts proposed in the form of a Medicaid cap that is included in the budget. I'm worried about this because we're discussing the regular budget process—the place where we can set priorities and where cuts are not automatic.

We have all made a commitment. Collectively, as a nation, we decided years ago that Medicaid is a humane, sensible investment and that some uniformity in offering health care to the poorest of the poor is important.

I'm not ready to retreat from this commitment. I'm certainly not ready to retreat from it via the budget process. If we as a country are changing our minds about the importance of this program, I want us to discuss it separately from debates about money because I believe in and want to defend the principles on which Medicaid is based.

I urge you not to retreat from our commitment. Such a retreat will have a deadly effect on the people of Texas.

Mr. Frost. Thank you.

Our final witness on this panel is Fredna White, Texas Coordinator for the American Federation of Government Employees. Ms. White.

STATEMENT OF FREDNA WHITE, TEXAS COORDINATOR, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

Ms. White. Thank you.

I am a medical administrative assistant at the VA Medical Center in Waco, TX. Over the past years in my capacity as a union leader, I have the opportunity to talk with the employees from the VA medical systems across the country.

In recent years, these discussions have turned to increased workloads and decreased capacity to do our jobs. With the first round of Gramm-Rudman and the administration's fiscal year 1987 budget, these concerns have reached a crisis level.

The first round of Gramm-Rudman would cut $117,557,000 from medical care in the VA. The so-called savings are largely accomplished by a reduction of 1,306 positions in the Department of Medicine and Surgery. Since the overall workload is not expected to decline, this will put enormous pressure on the remaining work force.

We looked forward to the President's budget, expecting that there would be significant increases in both funding and personnel. We were sadly mistaken.

The President's budget for fiscal year 1987 would cut $106,603,000 from medical care and an additional $11,679,000 from medical administration and operating expenses from fiscal year 1986 levels.

For fiscal year 1987, this is $400 million below the Congressional Budget Office baseline for VA medical care. On personnel, the administration would slice 7,542 positions in medical care, 102 jobs in medical and prosthetic research, and 73 jobs in administration.

Combined with the Gramm-Rudman cut, this means that in 1 calendar year the existing medical staff will be cut by a staggering 10,233 employees. As far as we can determine, a personnel reduction of this magnitude is unprecedented.

In detail for fiscal year 1987, hospital care average employment is reduced by 6,240 and average employment for the remaining medical services, including outpatient care, is reduced by 1,302. This means that over 1,300 nurses and almost 500 physicians won't be in the hospitals to care for the increasing patient load from the last 3 or 4 years.

For veterans, that will be a decrease of 57,354 inpatients treated and over 1 million outpatient visits cut.

The administration believes that reductions of this magnitude are easily achieved by treating fewer low priority veterans and productivity increases.

We strongly urge that the committee examine very carefully the administration's proposal to restrict eligibility for VA medical care. We suspect that the projected reduction in patients will not materialize unless deserving veterans are turned away. We note that Representative Bob Edgar, chairman of the Subcommittee on Hospitals and Health Care of the Committee on Veterans Affairs, stated last week that: "Up to 37,000 eligible non-service-connected veterans are refused care every month."

Similarly, we question the reality of the productivity increases. We strongly suspect that such productivity increases will mean making do with less, giving patients less care, and an overall attempt at a work speedup.

Of course, the quality of medical care for veterans is not only a function of the number of employees, but the quality of employees, as well.

But across the country in the VA, and quite frankly in other Federal agencies as well, our compensation is falling severely as compared to our private sector counterparts. Following last year's pay freeze, this year the administration proposes a 3-percent pay raise offset by a 2-percent increase in retirement contribution for an insulting 1 percent net pay raise.

On retirement, the administration would have us pay more, work longer, and get less. In particular, the budget proposal seeks to: Increase the retirement age from 55 to 62 with a 2-percent reduction in our pension for each year we retire before age 62; eliminate the January 1987 COLA for retirees; reduce all future COLA's by 2 percent; reduce the basic annuity by basing it on an employee's high 5 years of earnings instead of the current high 3.

As a health care professional, I am especially distressed over the administration's proposal to reduce the Government's contribution for health insurance and promote cut-rate, inadequate health plans. The average employee would see the Government's contribution for health insurance fall by $110 in fiscal year 1987.

If veterans are to receive quality health care, it takes professional, top-notch health care personnel, and that requires fair and adequate compensation.

I know that this committee faces difficult choices in the months ahead. I hope and expect that the committee will improve upon the President's proposal for Veterans' Administration, but quite frankly, that is not enough. If our budget is increased to the detriment of job training or education or food stamps, that is not satisfactory.

What is desperately needed is revenues. The AFL-CIO and other organizations, such as the Citizens for Tax Justice, have shown how such revenues can be fairly generated by such measures as a corporate minimum tax and closing loopholes for the wealthy and corporations.

If this committee is to exercise the responsibility entrusted to it by the electorate, it must exert its leadership on the issue of revenues.

Thank you.

Mr. **Frost**. Thank you. The testimony has been excellent.

And I would ask Congressman Oberstar if he has any questions.

Mr. **Oberstar**. Thank you, Mr. Chairman.

I must compliment the witnesses on their statements, for the specificity of your presentation and deep feeling accompanying your presentations in describing the situations in the real world, people that you have to deal with, the conditions being worsened not bettered by the impact of the Federal budget. It duplicates what I see in my own district, what I hear from my constituents.

Thank you for your very powerful testimony.

Mr. **Frost**. Congressman Boulter?

Mr. **Boulter**. I also would like to thank the witnesses for their testimony, Mr. Chairman. I found much to admire in everyone's statements, especially Dr. Anderson's willingness to try the voucher system in an attempt to eliminate the tobacco subsidy, all of which I totally share, Dr. Anderson.

I also agree with you that mindless, across-the-board reductions are absurd. It's only fair to point out that, as originally written and twice passed by the Senate, the across-the-board reductions were not to have occurred in 1986. And, in fact, I think the record would show that it was the House leadership who made the amendment to put them in the fiscal year 1986 budget.

I, in fact, have offered a resolution to say that we should get the same savings, the $11.7 billion savings in fiscal year 1986, by doing exactly what you suggest. And that is pick priorities, punishing bad programs and fully funding the good programs.

It's also only fair for everyone to realize that if we do have reductions, many of the programs you're expressing concern about—women and children's programs, supplemental heating programs, child nutrition programs, food stamps, Medicaid—are exempt. Of course, Medicare could only be cut in the event of the automatic

reductions by 2 percent, starting with fiscal year 1987. So, those programs are protected.

But I want to ask Dr. Anderson a couple of questions because I did find something he agreed with me on. I think Medicare is the most complex problem, and I confess, I don't have answers.

I do think, however, that the facts are, especially when you're talking about Medicaid and poor people, that a job is a great program, and a paycheck is a great program. And the facts are that we have created 10 million brandnew jobs in the private sector in this country since 1981. That's more than Western Europe has done altogether

And I wondered what you would see wrong with this because I think you expressed that we almost have a middle- and upper-class welfare system. I think I heard you say that.

Dr. ANDERSON. That's what I said.

Mr. BOULTER. And I couldn't agree more. And there's been testimony about UDAG here. Well, to me, UDAG does not help the poor. It certainly doesn't help our Texas cities. I know of none yet. But it doesn't help the poor. It seems like it helps the Hilton Hotel more than it does the poor.

Why can't we pick and choose and eliminate programs like that, like the Amtrak subsidy. I don't think the Amtrak subsidy helps the kind of people you're talking about.

And I want you to take note and comment upon these.

I don't think the direct subsidy for the export-import base which benefits General Dynamics and Lockheed and Grumann. I don't see how the SBA direct loan program helps the poor. I don't see how arts and humanities helps the poor. There are a lot of programs that I don't understand how they help the poor.

And yet, you seem to be saying that we've got to have a tax increase to help the poor. Would you see anything wrong with first trying to eliminate these various kinds of upper- and middle-class welfare programs?

Dr. ANDERSON. I appreciate your comments very much. And I didn't say we had to have a tax increase. I said I had the nerve to say that we had to have a tax increase if that's the only option we have. And I think we're down to the point where that is an option no one's going to discuss because it is an election year and everyone's trying to posture themselves as being the most conservative.

New Federalism isn't new to Texas. You being a Texan, you know we've been under that sort of system a long time, and our county judge is just as conservative as Mr. Reagan. And I think that everyone probably would be happy—but what I'm saying is if a tax is a necessary revenue source, then use it. You either balance the revenues or you don't. You either cut spending or you don't. You have to have a balance of those two things.

I would much prefer your approach of cutting out programs that do not do anything and are a waste of taxpayers' money. I think you ought to be responsible for showing outcome and showing that we have done something worthy.

The taxpayer is our corporate shareholder. Look at it that way. We ought to privatize but not give public systems away to the private sector, but privatize in the sense that public systems behave as businesslike as the private sector. It's very difficult to be businesslike in the public sector now because of the uncertainity of what is going on.

The prospective payments system has been changed many times in 3 years. There's nothing prospective about it, except it's prospectively trying to cut payments.

Let me just comment on the help that you might be able to provide small business and not corporations. Right now in south Dallas, we could go in and create jobs that are useful in that area, instead of jobs someplace else. We can turn dollars in trade cycles in the black community around, and do what capitalism does everywhere.

So, we are leaving that area blighted while we go someplace in north Dallas and build more and more and more.

My point is: I don't think we're giving the poor, which often means minority population, the opportunity to do what others in this Nation have done through the capitalist process. I think we ought to make access to these opportunities available.

Now jobs. Jobs are a big part of the solution. If the jobs are really needed, they are not welfare. I would hasten to add, though, that Mr. Reagan's administration hasn't created any more jobs than the previous administration as a percentage of the population. That is a nice myth. But that hasn't happened as a result of budget or tax cuts.

And people are being displaced in the blue collar field every day, and those people are not insured.

So, finally, Medicaid is protected under the automatic cuts in the Gramm-Rudman-Hollings, not protected up to the time of automatic cuts. It can be cut substantially. That's another thing being told the public which isn't exactly the full story.

But I think the stark truth is that Medicaid can be cut and cut substantially to avoid Gramm-Rudman-Hollings.

Mr. FROST. Dr. Anderson, thank you.

The Budget Committee has prepared an analysis of the President's budget. And on the point made by Congressman Boulter, in December 1980 when President Reagan took office, the unemployment rate among blacks was about 15 percent. December 1985, it was 14.9, virtually the same. Among black men over the age of 20 in December 1980, it was 12 percent; it's now 13.1 percent. So, it's actually higher than when the Reagan administration came in.

Among black women, it was 13.5 percent in December 1980; it is now 12.6. Virtually the same.

And among black teenagers, it was 40.5 percent when President Reagan took office; it's now 41.6 percent, 1 percentage point higher.

One other point, the Chair was a member of the conference committee on Gramm-Rudman. And Congressman Boulter, I would point out that the final version of the 1986 cuts in the Gramm-Rudman was drafted by Senator Gramm.

Mr. BOULTER. Well, I will relay that to Senator Gramm, Congressman Frost.

Mr. FROST. I was in the room when it occurred, and the final budget was written by Senator Gramm. He was the one that proposed the 50/50 split between defense and nondefense programs in 1986.

Mr. BOULTER. That's not what we're talking to.

Mr. FROST. No, but you said—you said that Senator Gramm was the one who devised the 1986 formula for—under Gramm-Rudman.

I would, at this point, ask—suggest to the witnesses that the time is late, that I enjoyed your testimony. It was excellent. Very, very detailed, as you pointed out. Very much on the point. And appreciate your appearance before us.

We have one other witness, Hon. Bill Ceverha of Dallas County, a member of the Texas State House of Representatives.

STATEMENT OF HON. BILL CEVERHA, TEXAS STATE REPRESENTATIVE

Mr. CEVERHA. Thank you, Mr. Chairman and members. I'll be very brief.

I do thank you for the opportunity to appear, however late the hour, before your committee to offer what may be at least one alternative view to the witnesses which have appeared before me.

I must admit that when I first saw the list of witnesses scheduled for this public hearing, I was distressed with what appeared to be a pretty lopsided partisan view. I would hope that in the serious process of budgetmaking this would not be a Republican or a Democrat issue, but one which is an important issue for all of us as Americans.

I would also hope that you might, at some point, provide some time for a citizen input, not just those who stand to lose something by bringing spending in line with available funds.

While I never would pretend to have a grasp of the Federal budget that you, as members of this committee and as Members of Congress have, I do believe that I can provide at least one view of what the people of Texas expect of their elected officials, local, State, and national, and what we, in Texas government, expect from the Federal budget.

Personally, I am very encouraged by President Reagan's proposals, along with the Gramm-Rudman-Hollings Act, to bring some sense of reality and fiscal responsibility to the Federal budgetmaking process.

Especially appealing to me is the renewal of the administration's original push for federalism, returning responsibility for some programs to State and local governments, along with steps toward privatization. The proposals for block grants, for example, and transportation, pollution control, for primary health care and others which allow the States to administer the programs without unnecessary and burdensome regulatory and reporting requirements, I believe are very positive steps. And they are, I believe, at least one more step toward the historic constitutional relationship between the State and the Federal Government.

At the same time, I realize that the Federal dollar tax flow into the State treasury will be reduced, and that reduction will force us, as decisionmakers here, to work overtime.

But I am fully prepared to accept the consequences of rational spending because I know that, along with it, comes an even stronger economy, lower interest rates, low inflation, growth in job opportunities, and a generally stronger State and Nation economically.

I am absolutely convinced that the people of Texas are ready to accept these consequences also, and they will see political cries of tribulation and distress for what they are, the cries of those who see some power slipping from their hands or easy money sliding from their pockets.

Likewise, I'm absolutely convinced that the last thing the people of Texas want is a tax increase to ease the so-called strain of making a budget which is still $144 billion in the red.

If I have any complaint about the Reagan proposal, it is that it does not call for a balanced budget. And I don't mean balanced by raising taxes to pay for increased spending. But I suppose it's too much to ask to make up for 17 straight years of deficit spending in just 1 year.

You are well aware, and you've heard, that we here in Texas are currently confronted with a recent phenomenon, sharply falling crude oil price and the resulting loss of State revenues and oil company income. In the private sector, that situation is being addressed in one of the only ways it can be, cutbacks in exploration, production and, of course, jobs.

In the public sector, we are looking at a shortfall in available funds before the end of our current biennium. At the same time, the drop in oil prices is having a positive effect in other industries in other parts of the country.

There are those in Texas who are already talking about raising taxes to make up that shortfall. But I can tell you that any such efforts would be very difficult without a very close look at how we are spending State money.

Should we not be just as careful, just as responsive as those in the private sector of our State and see the reality of the situation and make the necessary adjustments to match available income?

Surely, a Federal outlay of almost $1 trillion, double that of just 8 years before it, is enough to handle the priorities of the Federal Government.

I would ask you, as a fellow public servant, as a citizen and as a taxpayer, let's use this opportunity to really examine our priorities, to begin the restoration of the historic relationship of the States and the Federal Government in those areas, and to cut back in those areas where it didn't belong in the first place; to end those programs which were designed for a specific problem which has long since been solved and to conclude those programs which have long since proven ineffective.

If you do that, if you choose the high road of statesmanship, instead of the low road of politics as usual, I can guarantee you that we will be here supporting your efforts and doing our part in Texas to continue to build a brighter and better America for all our citizens.

Thank you, Mr. Chairman and members.

Mr. Frost. Thank you for your very good statement.

And Representative Ceverha, I have one or two questions. You've talked about the need to cut the Federal budget and that you would prefer that we not have a $144 billion deficit but that we have zero.

I'd like to ask you about the defense budget and what your attitude is on that. The defense budget was approximately $150 billion in 1980 when President Reagan came into office. It is now approximately $300 billion a year. The President has asked for an 8-percent increase in budget authority for defense for this coming year and a 6-percent increase in outlays for defense.

Do you agree with these increases in defense, given our need to reduce the deficit? Or do you think that defense should be treated the same way as NASA program bill?

Mr. CEVERHA. Well, Mr. Frost, I hope you understand, and certainly you would, that I'm certainly no expert on defense spending, nor am I privy to the ramifications of various programs.

However, I would point out that a great deal has been made about defense today, in their absence, particularly by Mr. Bryant. But what's overlooked is we're looking again in a vacuum because in the period of the sixties and seventies when these other programs, domestic programs, were literally exploding in growth, defense was taking a cut. There was a time in the fifties and sixties under both Republican and Democrat administrations when defense made up something like 9 percent of the GNP, and now we're talking about 6 percent, which I believe in anybody's mathematics would still be a decrease from those times.

So, on the other hand, while those programs were—taking up an even greater portion of our spending, defense was shrinking. And I believe if the statistics I've seen are correct, in the period of the seventies we saw a real decline, 25 percent, in defense spending. So, what the President's trying to do now is to make up for that period when we just put defense on the shelf. And I don't think it's fair to look at it in that vacuum.

Mr. FROST. Well, it is 27 percent of our total budget. And the President has asked for a significant increase in defense this year, while he's asking for significant decreases in many other areas.

I'm asking you, as someone who is a knowledgeable citizen of this State, and defense is a very important issue in my district and in this State, as you know, do you feel that we can, at this particular time in our history, regardless of what may have occurred in previous years, whether we can afford that type of increase in the defense right now, given our deficit?

Mr. CEVERHA. I believe that you and the Congress and the administration ought to take a serious look at the real priorities. I would place, providing for our common defense, as the Constitution I believe says, a No. 1 priority. And that's the historic place of the Federal Government.

There was a time—and unfortunately, there's not too many of us around anymore who remember those times when the Federal Government pretty much stayed in two or three areas—they weren't telling us what speed limits to drive on our highways or what to teach in our schools and that sort of thing. They left those things to the State where it should have been and spent their time providing for our national defense and providing for a transportation system which made our economy grow.

Mr. FROST. Let me ask you one other question. Both Commissioner Price and Mayor Whitmire testified in favor of the continuation of the General Revenue Sharing Program for cities and counties. Do you have an opinion as to whether that's something the Federal

Government should be doing? Is the President correct in asking that that program be discontinued at the end of this fiscal year?

Mr. CEVERHA. I've never been a supporter of a program that takes $1 from Dallas, TX and gives 60 cents of it to Nebraska or wherever it might be. Why is it realistic to take our money—and that's, after all, where Federal money comes from, from yours and my pocket here in Texas—take it up to Washington and take 35 or 40 cents or whatever it takes to run the program and then give it back to us.

I think we should concentrate on eliminating and making your budget priorities as responsive as possible to eliminate those programs which, in effect, just move money back and forth. I'd rather keep it here in the first place.

Mr. FROST. Well, Representative Ceverha, I agree with you on the question of general revenue sharing. Contrary to the testimony of my own constituent, Mr. Price, I voted to terminate the General Revenue Sharing Program when it was considered last year.

I agree with the President in that area, and I think that is a program that Federal Government can end.

There are other areas on the domestic side, too, of some controversy as to whether those programs should be ended or continued. Do you have an opinion as to the President's proposal to end our subsidy for the Amtrak program?

Mr. CEVERHA. Yes; I support that. I think it's ridiculous, and I think the figure is that for every person who rides Amtrak, you and I are paying $35 to subsidize his or her ride, and I think that's rather ridiculous.

Mr. FROST. Well, I would suggest to you that that is an area that is going to get very serious consideration, and you may find Congress will agree with you on that, also.

This committee is going to look very carefully at the President's proposals, and it is my expectation that a number of the President's proposals are going to be decidedly accepted. Not all of them, but a number of them. We are in the process, or will be, of compromise, of picking and choosing.

I will tell you, and this is no secret, that there will be an up-or-down vote on the President's budget on the floor in early March. It is the intention, it has been announced, by the chairman of our committee that the President's budget would be sent to the floor for an up-or-down vote. And the President will have the opportunity to see if he can marshal the necessary votes to pass his budget.

Congressman Boulter indicated earlier today that the Republicans in the House are already putting together an alternative package to the President's budget. So, I think from that, that perhaps Congressman Boulter does not expect the President's budget to pass when it's submitted in early March.

But there will be an opportunity for an up-or-down vote on the President's budget in toto, as submitted to Congress, and we'll see what will happen.

Congressman Boulter?

Mr. BOULTER. I appreciate that. Thank you, Mr. Chairman.

Mr. Ceverha, I know that you're a member of the State House of Representatives, and I can't tell you how much I enjoyed your testimony as a witness today.

But I do want to ask you one question. Do you think that there has been any President of the United States who has submitted a budget to Congress that the Congress has adopted in toto without any change? Can you think of any President?

Mr. **Ceverha**. Well, I think—again, I'm not an historian—expert historian, but I don't believe that there has been, nor to the best of my recollection has any President had a vote on how much money we spend.

Mr. **Boulter**. I think you're right.

Mr. Ceverha, in my particular congressional district—you know, each Congressman represents roughly the same number of people, somewhere around 500,000, each of our constituents' share of just the interest on the national debt is greater than his share of all of the Federal money received into my district, counting farm subsidies and everything else. Do you know if that would be true of a typical congressional district?

Mr. **Ceverha**. Well, I would assume my district would be a lot like yours. And as you are well aware, this particular congressional district I'm in, the Third Congressional District, does not receive a lot of Federal funds back from Federal programs.

Now, for example, the school district which I represent does not participate in the Federal lunch program. So, in addition to sharing our burden on that debt, we also are paying for somebody else who is participating in those kinds of programs.

Mr. **Boulter**. Do you know how much the State of Texas does receive in Federal dollars for every dollar it sends to Washington?

Mr. **Ceverha**. I don't know the precise number. I know there was a big argument during the disposition of the increased gasoline tax to raise our share to about 80 cents on the dollar, I believe, on that particular aspect alone. And that would be a dramatic increase over what we had been receiving.

Mr. **Boulter**. You heard Mr. Frost recite the figures on black unemployment and youth unemployment. Many of us believe, Mr. Ceverha, that the reason those figures remain high is because many of our programs, designed to alleviate the problems of the poor, are in fact, exacerbating those problems.

Do you think it would be a good reform, as the President proposes, to require parental responsibility for children through the age of 18, as opposed to the way we now do it, which is putting an unwed mother, who's below that age, on Aid to Families with Dependent Children if she's living by herself, regardless of the fact that she may have able-bodied parents? Do you think it would be a needed and a good improvement to require that unwed mother to live with her own parents if her parents are available?

Mr. **Ceverha**. I think that's a great idea. And I think one of the unfortunate things about many of the programs in education, let's say, for example, or others that have been created over the past 10 or 20 years is that we've gone more and more to pull people away from the family structure and more and more away from the home. For example, we're moving away from allowing children to be children, and we have preschool and pre-preschool. We take children out of the house when they're 3 years old. And I think those programs are very bad, not only for the expense involved, but for what they do to the family structure.

Mr. Boulter. Do you think it would be a good reform, as the President proposes, and might create incentives among the people to pull themselves up if we required able-bodied people receiving AFDC payments or food stamps to either search for a job or work in the public sector in some manner?

Mr. Ceverha. Yes; and I believe those programs have been tried in a number of States and are underway today.

Mr. Boulter. Does Texas have that kind of program, by the way?

Mr. Ceverha. No, not yet.

Mr. Boulter. That's all the questions I have, Mr. Chairman. Thank you very much.

Mr. Ceverha. Thank you.

Mr. Frost. Thank you very much. This concludes the hearing. I would observe that this has been a really excellent hearing and that we focused on some very important parts of the budget, areas that would not necessarily have been covered by hearings in other parts of the country.

Clearly, the issue of the health and the energy industry and the need for, or the desirability of, an oil import fee, I don't believe, has been covered anywhere else.

Clearly, the question of air safety has not been covered in any of the other hearings.

And I would observe that the witnesses on the other subjects, while those subjects may have been dealt with in the other hearings, the witnesses on behalf of the State, on behalf of local government, and on behalf of health care have been excellent and have provided very valuable testimony to this committee.

And I appreciate all of your attention. Thank you very much.

That concludes the hearing.

[The following additional material was submitted for the record:]

FEBRUARY 13, 1986.

Honorable Chairman of the Budget Committee, Holding Public Hearings,
Dallas, TX.

HONORABLE CHAIRMAN: I am Aron J. Floyd, I reside at 4605 Mark Trail, here in the City of Dallas, Texas 75232. My remarks for the record are on behalf of the 120,000 plus persons who are below the poverty threshold residing here in the County of Dallas.

I didn't bother to encumber your record with their individual comment, however, I am willing and prepared to present them to you should you desire, in an effort to make known to you the plight of the poor in this County as a direct result of the proposed budget cuts and the anticipated devastating effect upon their lives of the Gramm-Rudman-Hollings legislation.

Simply put, such legislation has been felt and should it be implemented fully would have devastating and even castastrophic result upon their very existence.

Last fiscal year, we serviced as evidenced by the attached annual report in excess of 200,000. Already for the first and second quarters of this fiscal year, we have received requests in excess of all received for the total last fiscal year. Gramm-Rudman-Hollings and the proposed budget would wipe out in one fail swoop all these services. We plea for some sensitivity and understanding on the part of those helpless numbers.

Sincerely,

ARON J. FLOYD.

Southwestern Meat Packers Association,
Irving, TX, February 13, 1986.

Hon. Martin Frost,
*U.S. House of Representatives,
Washington, DC.*

Dear Congressman: I appreciate this opportunity to express the opinions of the meat industry and members of Southwestern Meat Packers Association (SWMPA) concerning user fees for meat inspection. SWMPA represents the meat packing and processing industry in Texas, Oklahoma, New Mexico, Arkansas and Louisiana.

The 1987 budget proposes to place government meat and poultry inspection on a user fee basis. The term "user fee" is a misnomer. In actuality, it would be a tax on meat. The rule of thumb that clearly illustrates the distinct difference is: Who is the beneficiary?

A user fee is a charge for services, requested voluntarily, that the government performs for a private benefit. A tax, on the other hand, is a charge imposed for mandatory government services which primarily benefit the public as a whole.

Some will argue that user fees will shift financial responsibility for quality control from government to industry where it belongs. A clearly definable difference exists between the responsibilities of government and industry regarding production of meat and meat products. Government's limited charge is to assure, through the use of inspectors, that wholesome, unadulterated and properly labeled products reach the consuming public. Industry, on the other hand, is solely responsible for controlling product quality.

Furthermore, governments' commitment to public health must not waiver. The potential exists that consumers will perceive the funding shift to the regulated industry as removing the program's longstanding independence and jeopardize its integrity. If consumers doubt the program protects them, its effectiveness will diminish.

Historically, Congress has repeatedly maintained that meat and poultry inspection benefits the public. In 1906, when meat inspection was initiated, Congress, after full consideration of this issue, concluded that it would be "sound governmental policy and wise legislative practice" to pay for meat inspection from the public treasury. Congress has deviated from government funding of meat inspection only once, in 1947. This one year experiment, enacted to reduce government costs, was reversed in 1948. Congress gave these valid reasons for returning inspection costs to government.

"Such inspection is obviously for the benefit of the consumers in general—the public—rather than for the benefit of processors or producers.

"The cost of such inspection should be paid out of the general funds because it is the only way in which consumers can be assured of effective, uncompromising inspection in which they can repose the fullest confidence."

The General Accounting Office (GAO), concurred, in a 1981 report, GAO concluded "USDA inspections of meat and poultry processing plant operations clearly provide broad public benefits: therefore, appropriations funding is appropriate." Even the President's Private Sector Study on Cost Control (the Grace Commission) concluded in its 1984 report to the President that a user tax is totally inappropriate for meat inspection.

Another concern is whether user fees will help reduce the deficit without imposing a significant burden on the industry as a whole, or consumers. Meat and poultry processors would be victimized by a discriminatory tax that would increase processing costs.

When put in perspective, this added cost of doing business would have severe economic repercussions. The meat industry consistently ranks as one of the least profitable of major U.S. industries; profits hover around 1 percent of sales. In 1983, packers earned $380 million. Subtracting their share of the approximately $350 million inspection bill would decimate profits. The result could be plant closings or bankruptcies. The only alternatives, both undesirable, would be to attempt passing the costs forward to consumers or backward to livestock producers.

Under the persent system, meat and poultry inspection costs each U.S. citizen less than $1.50 per year. That is a reasonable amount to maintain an inspection program that works and one in which the public has faith.

The meat industry shows the administration's desire to cut government spending. By making the meat inspection program more efficient the program cost could be reduced but still remain an effective government funded program.

We urge Congress to carefully evaluate the 1987 budget proposal which proposes user fees for the mandatory meat inspection. Thank you for your time and consideration on this important matter.

Sincerely,

LEON N. KOTHMANN,
Executive Director—SWMPA.

INDEPENDENCE MORTGAGE INC.,
Dallas, TX, February 12, 1986.

Hon. MARTIN FROST,
400 South Zang, Suite 1319,
Dallas, TX.

DEAR CONGRESSMAN FROST: My name is Tom Kenagy, and I am the Executive Vice President of Independence Mortgage, Inc., located in Dallas, Texas. Please accept this limited testimony regarding the continuing adverse economic impact of declining oil prices, and the potentially worsening situation should certain proposed deficit reduction measures be passed and implemented.

The scenario here is familiar to all, but is especially troublesome in Texas. Our oil and gas based economy has experienced massive losses from non-performing energy loans. The nonperformance of these loans has virtually crippled (if not closed) many small banks; their liquidity has vanished, and their propensity to extend long term credit to small businesses has become non-existent. A ripple effect has occurred producing massive layoffs in almost all industries, including banking. Small business has been the big loser.

The result of all this is a critical absence of long term financing to creditworthy small businesses. This condition in turn restricts new job opportunities, and reduces both cash flow into local economies and tax revenues to all levels of government.

The administration's proposal to eliminate the government guaranteed lending program as a partial solution to reducing the federal deficit has me concerned and puzzled. It is a fact that this program is an effective stimulus for economic growth. A significant number of new jobs are created as a result of small business loans made under the guaranty program. These businesses pay taxes directly, and employee wages generate tax revenues to the government.

The guaranty program also creates liquidity for small business lenders through the secondary market mechanism, thus permitting more credit to flow into small businesses for startup and expansion. I fail to see the logic of eliminating a program that has so many positive characteristics and which is beneficial to so many.

In my opinion, small business is the most productive sector of our economy, and it provides the best economic alternative for the future. Small business is a significant source of innovation given sufficient capital sources. I urge you to consider all relevant factors before determining the fate of the government guaranteed lending program, and hope the ultimate decision will be to retain it.

Sincerely,

THOMAS E. KENAGY,
Executive Vice President.

PREPARED STATEMENT OF EDWARD B. CROSS, M.D.

Mr. Chairman, Committee Members, Ladies and Gentlemen: I am honored to comment briefly on some aspects of the Medicare program.

As Assistant Surgeon General under Presidents Johnson and Nixon, I witnessed the collaboration among Government branches, health care providers, and health and education professionals that sought to maximize services to America's populations at risk.

Mr. Reagan's State of the Union address and budget are sorry reminders that the era of such collaboration is long past. Although this Administration contends repeatedly that it will not reduce Social Security benefits, it is doing precisely that—albeit indirectly—by reducing Medicare benefits. And our 30 million Medicare recipients, living on fixed incomes and often below the poverty line, are increasingly forced to shoulder health care costs.

Government's shifting more costs to patients is based on the false premise that patients who must pay more for health care will be less likely to use it: in other words, that people desire or will themselves to become or to be sick.

Resulting from this false premise are increased deductibles and copayments and frozen providers' fees. Though Medicare now pays for approved home health care services, the Health Care Financing Administration (HCFA) has proposed copayment by patients, which would be yet another Medicare cost. And without supplemental private health insurance, a Medicare patient can incur up to $50,000 yearly in charges for catastrophic illness.

HCFA has created such duplicative programs as Diagnosis Related Groups (DRGs), which do not reduce program costs and do not include such urgently-needed services as preventive care and routine physical checkups for the elderly. With $170 million proposed for DRGs in 1986, the possible benefits of such programs are outweighed by their cost.

Solutions are as clear as the problems are grave. We can implement prepaid capitation group plans for Medicare (and Medicaid) beneficiaries; have them monitor their care, and structure premiums in family units whenever appropriate. We can curtail if not eliminate DRGs, PROs and Fiscal Intermediary Services, and instead strengthen the same administrative and management functions in-house. We can involve more fee-for-service practitioners in Federal health programs (PPOs, IPAs, coalitions between physician groups and health insurance underwriters, medical centers, etc.).

These solutions would result in a dramatically-improved quality of health care and in tremendous savings for Government and for Medicare beneficiaries. For instance, for every million Medicare beneficiaries so enrolled yearly, Government would save $1 billion (a cumulative savings of $15 billion in five years; of $55 billion in ten years). For every million Medicare beneficiaries so enrolled yearly, beneficiaries would save $0.5 billion annually in out-of-pocket expenses. The total cumulative savings for Government and Medicare patients: $22.5 billion in five years; $80 billion in ten years.

The America that explores outer space still lacks a plan or strategy for national health care. In reducing the budget for such social programs as Medicare and Medicaid, the Reagan Administration is attempting to correct budget deficits at the expense of our least affluent, least powerful citizens.

PREPARED STATEMENT OF MICKEY D. SMITH, PRESIDENT, EAST TEXAS PRODUCERS & ROYALTY OWNERS ASSOCIATION

Mr. Chairman, members of the committee, my name is Mickey D. Smith, I am president of East Texas Producers & Royalty Owners Association, a non-profit oil and gas association comprising 76 Counties of East Texas, based in Longview, Texas. Our membership consist of independent oil and gas producers, individual royalty owners, service related companies and other business who are dependent on the stability of oil and gas production and marketing for their economic well-being and "National Security" for all Americans.

On behalf of our officers, board of directors and membership, I am grateful for the opportunity to present written testimony to this committee, my statement to you is in support of a "National Energy Security and Conservation Policy"—encompassing a fee on crude oil and petroleum products imported into the United States.

In anticipation of the recent sharp plunge in oil prices, to their lowest level in seven years, the Board of Directors of East Texas Producers & Royalty Owners Association on February 1, 1985 passed the attached "Petroleum Tax Equalization Statement." This was an effort to alert the President and Congress of the marketing crisis facing domestic producers. The statement clearly defined the circumstances existing at that time, which now have resulted in a depressed U.S. drilling and refining industry and drastic dwindling price of world oil.

East Texas Producers & Royalty Owners Association is encourged that both the Reagan administration and Congress is showing an interest in levying a respectable fee on imported and refined petroleum products.

Is this Nation so dependent of foreign petroleum that it must give foreign producers an advantage in the marketplace? East Texas Producers & Royalty Owners Association believes it is time to balance the scales.

The foreign oil problem simply refuses to go away, from being virtually hijacked by OPEC in the 1970's, the situation has reversed to the point where dumping of OPEC surpluses is ruining the American petroleum industry.

Gasoline imports are up 30 percent over last year, and the increase has been even more dramatic in diesel fuel and heating oil.

The increase has devastated the domestic industry. Over the past three years, more than 130 U.S. refineries have closed, most driven out of business by OPEC refineries with access to cheap, subsidized oil.

Economy in southeast Texas is in shambles because of refinery closing in that area. A study by Lamar University found that more than 54,000 manufacturing jobs virtually all related to petroleum have been wiped out over the last five years on the Texas Gulf Coast alone.

Imported gasoline will soon bury financially hardpressed independents as foreign refiners set their prices at whatever it takes to gain entry to this country.

Some benefits have been reaped by consumers, of course, but the handwriting is on the wall. Domestic oil producing is declining and crude imports rose last year for the first time since 1979.

Currently, the five million barrels of crude oil entering this country every day is taxed at a scant 50 cents a barrel and refined products at less than 2 cents a gallon—far from equal to levies on domestic products.

Unfair competition from subsidized foreign oil is forcing U.S. companies to cut back exploration and in many instances forced into the bankruptcy courts. When OPEC regains control of the marketplace, as it surely will if the present trend continues, the embargos of 1973-74 will be a cake walk to what the future holds for America.

The argument that an import fee hike would move the United States into protectionism can be discounted. There has been no order in the marketplace since OPEC imposed its embargo in 1973. For the past 12 years, the world has suffered from an artificial price structure set-up by OPEC and now is the time to turn the table.

We are confident that the Congress and the Reagan administration recognizes the problem. Just as you realize imported petroleum products from state-owned and subsidized sources have had disastrous effects on U.S. employment, you can vision the security dangers inherent in foreign dependency for energy.

It is in the national interest that the vital domestic oil and gas industry survive. It must not be thrown to the wolves, as now is occurring. The time has come for forceful action.

Congress should levy a fee on all imported petroleum products. A $5 per barrel fee would serve not only to bring at least some equality to the marketplace but would produce needed revenue which could and should be applied only to Deficit Reduction.

Let's stop talking about the problem and start doing something about it. Timidity won't do the job, we can't bury our heads in the sand. Other nations have had no hesitancy to act. Japan permits no gasoline or Middle East distillate to enter. Italy, Sweden and other countries as diverse have imposed quotas. The United States should likewise protect its interest.

Considering that this country is facing deficits approaching $200 billion over the next several years, and in fairness to America's unsubsidized producers and refiners, there should be no hesitancy about levying a treasury line to this virtually untapped revenue source.

Thank you for your interest and consideration. I will be happy to reply to any questions you wish clarified.

Enclosures.

East Texas Producers & Royalty Owners Association,
Longview, TX, February 1, 1985.

On February 1, 1985, the Board of Directors of the East Texas Producers & Royalty Owners Association approved the following statement.

PETROLEUM TAX EQUALIZATION

Domestic producers of petroleum face a marketing crisis of such proportions that it renders the industry unable to meet even nominal goals for finding and producing petroleum reserves. At the heart of this marketing crisis is the importation of crude and refined products and the growing dominance of spot market pricing in lieu of historical long term contractual marketing. The domestic industry has the capacity to replace annually the reserves of oil and gas consumed, but in order to do so must have market stability a price which encourages the capital needed for a maximum exploration effort.

Imported petroleum pays almost no taxes, results in a substantial net loss of American jobs, increases the nation's balance of payments deficit, and undermines national security. Imported petroleum has a noncompetitive advantage over competing domestic production stemming from federal, state, and local taxation policy.

The Board of Directors of the East Texas Producers & Royalty Owners Association supports the imposition of a tax to equalize the treatment of imported and domestic petroleum and opposes any policies which would increase taxes on the domestic producing industry.

There are several reasons why the present circumstances warrant support of an import fee on imported crude oil and refined products.

1. Domestic sweet crude is rapidly losing its market share due to the general preference the refining industry has for sour crudes (imports).

2. Domestic drilling is still flat at about 50% of the 1981 peak. With the recent market instability and price decreases for crude oil and the downward "renegotiation" of gas contracts currently underway, it is reasonable to predict that the next few years will not be good for this capital intensive industry.

3. Our nation is still not replacing the reserves we utilize annually. At the current levels of activity, we cannot hope to do so.

4. Our nation continues to have a substantial balance of payments deficit, with energy being a major component.

5. The enormity of the budget deficits makes it highly likely that the federal government will attempt to raise revenues from a variety of sources. If energy is to be a source, why not imported energy?

6. The current "low" price of energy has all but stopped our nation's development of alternative fuels, and we are losing our drive for conservation.

In summary, a properly constructed import fee would tend to make domestic oil more competitive with imported crude oil, would cause the sales and price of domestic crude to increase and stabilize, would extend the life of marginal production, would result in increased exploration activity in the United States, would contribute revenue to the U.S. Treasury, and would aid in the balance of payments problem.

We realize that some might question advocating an import fee from a purely political viewpoint. In this vein, there are no "hard facts" which can be developed. Rather, one must rely on judgment and experience. Previously, the concern has been voiced that by opening up the subject of energy taxation, we would not be able to control how far Congress would go once it started taxing energy. It is our feeling that we should not let this fear paralyze the industry into inaction. We have confidence in the story our industry has to tell and our ability to articulate that story. Declining crude oil and natural gas prices, combined with our already inordinate tax burden and the long term pattern towards ever declining national reserves, substantially reduce the likelihood of new taxes aimed at us.

Additionally, the Windfall Profit Tax is reaping much less for the federal treasury than expected. Thus, should an import tax result in higher prices for domestic oil, it can be argued that we already have in place a taxing mechanism to domestic producers as a result of an import tax.

It is our belief that a major reason for the problems we face is the significant and increasing share of the market dominated by spot purchases. In a recent conversation with a representative of a major oil company, we were told that in 1982 less than 5 percent of the domestic oil was traded on the spot market, but that now approximately 65 percent is traded on the spot market. Internationally, spot marketing is approaching 40 percent of the total. This spot marketing strategy is creating a roller-coaster which discourages independents and investors from making long term capital commitments. As we all know, when there is uncertainty, this industry grinds to a halt. If we could stabilize the domestic crude oil market, we would reduce the negative influence of the spot market.

The independent oil and gas industry applies two tests when asking if the industry should support a particular policy. "Is it good economic or tax policy?" We believe that in the circumstances our nation faces, the answers are affirmative to both questions.

Therefore be it resolved that this statement become the official policy position of the East Texas Producers & Royalty Owners Association adopted this 1st Day of February 1985, in Kilgore, Texas.

Signed:

MICKEY D. SMITH, *President.*
DAN JONES, *Executive Vice President.*

HOUSE CONCURRENT RESOLUTION

Whereas, The health and stability of the domestic oil and petrochemical industries are of vital importance to the American economy; and

Whereas, The present world petroleum producing capacity far exceeds the market demand resulting in a price war that threatens the stability of America's oil and petrochemical industries; and

Whereas, The present import policies have resulted in serious economic decline and escalating unemployment in the domestic oil industry; and

Whereas, The continuation of these present policies will result in an increasing dependence on foreign oil in contravention of national policy; now, therefore, be it

Resolved by the House of Representatives of the State of Texas, the Senate concurring, That the 69th Legislature of the State of Texas call on the Congress of the United States to pass and send to the president an Act authorizing and imposing a temporary tariff on all imports of foreign crude oil and foreign petrochemical products; and, be it further

Resolved, That the secretary of state of the State of Texas forward official copies of this resolution to the president of the United States, to the president of the Senate and the speaker of the House of Representatives of the United States Congress, and to all members of the Texas delegation to the congress with the request that this resolution be officially entered in the Congressional Record as a memorial to the Congress of the United States of America.

W. P. Hobby, *President of the Senate.*
Gib Lewis, *Speaker of the House.*

I certify that H.C.R. No. 106 was adopted by the House on May 17, 1985, by a non-record vote.

Betty Murray,
Chief Clerk of the House.

I certify that H.C.R. No. 106 was adopted by the Senate on May 24, 1985.

Betty King,
Secretary of the Senate.

Approved: June 15, 1985.

East Texas Producers & Royalty Owners Association,
Longview, TX.

For Immediate Release.
Oil Import Fee.
August 19, 1985.
By Mickey D. Smith, President ETPRO.

Mickey D. Smith, President of ETPRO announced that the Longview based organization is pleased to see a proposal in the Senate Finance Committee, by Senator Boren (D-OK.) and Senator Bentsen (D-TX.), calling for a $5.00/bbl. import fee on crude oil and $10.00/bbl. import fee on refined products.

According to Smith, "the import fee makes sense." Our association has advocated a fee from the beginning. The ETPRO Board of Directors on February 1, 1985 passed a resolution in support of a fee, then during the 69th Session of the Texas legislature ETPRO was instrumental in drafting and assisting Representative Jim McWilliams and Senator Ted Lyons with passage of a "joint resolution HCR-106" calling on the U.S. Congress to impose a tariff on crude and refined products.

ETPRO feels it's time to levy a tough new fee on imported oil and use every penny to reduce the U.S. budget deficit. Any doubt about the need for the fee was wiped out last week when officials announced the U.S. foreign trade deficit had skidded to its second worst figure ever. One of the prime causes was the money we had to shell out for imported oil, which flowed into the country at almost 6 million barrels a day, a stunning 20 percent increase over last year's average.

An import fee, at the current level of imports and as proposed in the Boren-Bentsen bill, would raise over $11.5 billion a year in revenues for the U.S. Treasury. What makes this fee unique is that it raises revenues without actually reducing the current income of the U.S. taxpayers.

Other benefits include national security, preservation of energy conservation initiatives, freedom from OPEC domination, and the insurance of economic stability vital for the domestic oil and gas industry to explore for, produce, and refine reserves sufficient to replace and add to current domestic production.

TIPRO and IPAA are meeting this month to determine their respective policy positions. Smith adds that he hopes the State and National Associations will join the Regional Association in support of this vital legislation.

NOTE: During their Executive Committee meeting August 24, 1985, Texas Independent Producers & Royalty Owners Association passed a resolution supporting "an Import Fee to be applied to crude oil and petroleum products imported into the United States."

[From the Longview Daily News, Feb 6, 1986]

EDITORIALS—NATIONAL SECURITY NEEDS OIL

The national security aspects concerning oil imports are seldom discussed, but it strikes us that having reliable, domestic oil resources for our military in time of war is a critical issue.

Consider the facts. Today, the United States buys approximately five million barrels of oil per day from some 27 countries. That represents about one-third of our usage. The largest consumer of petroleum products is the Department of Defense. Tanks, ships and planes cannot move without fuel.

The elimination or reduction of benefits which spur exploratory drilling by oil producers has caused large numbers of independent oil producers to close their doors or sharply reduce or curtail exploration for new domestic oil. Most exploration by major oil firms is offshore drilling. From a national security perspective, those off-shore rigs would be difficult to defend against enemy submarine or air attacks.

The reason for constructing the Big Inch pipeline during World War II to carry oil from Longview to East Coast refineries was that German submarines were sinking our oil tankers almost within sight of the Statue of Liberty, and American tanks and planes in Europe were starving for petroleum products.

Today, imported oil is being shipped by ocean tankers from the Middle East to the United States.

Those Middle East petroleum supplies are political hotspots. Both the Middle East and North Africa are subject to terrorism, insurrection and war. How quickly we forget the speed with which the Soviets occupied Afghanistan.

Saudi Arabia or any other Middle East oil exporting country could arbitrarily stop the supply to the United States. Where then would the U.S. military obtain its petroleum products?

Also, a key question comes to mind when we consider the purchase of oil from the Middle East. How much of that purchase is buying guns and ammunition for Libya, the PLO and other terrorists?

Prices quoted by the government concerning import oil have been misleading. Because of the costs of military protection for sea lanes where oil tankers travel, the real price of a $25 barrel of oil is really closer to $54. Over half of the U.S. $123 billion trade deficit in 1984 can be attributed to oil imports.

To improve the national defense posture, and to help reduce the deficit, an effort must be made to spur more domestic drilling and exploration. We cannot rely on offshore drilling, as those rigs are susceptible to attack and cannot be feasibly defended.

Another important consideration at this point, but one President Reagan seems to be ignoring, is the proposed import fee on foreign oil. A $5- to $10-a-barrel fee would go a long way toward reducing the deficit.

[Whereupon, at 5:50 p.m., the hearing was adjourned until Friday, February 14, 1986, in San Francisco, CA.]

IMPACT OF THE PRESIDENT'S 1987 BUDGET

FRIDAY, FEBRUARY 14, 1986

House of Representatives,
Committee on the Budget,
San Francisco, CA.

The committee met, pursuant to notice, at 9:15 a.m. in the Federal Building. Ceremonial Courtroom, 450 Golden Gate Avenue, San Francisco, CA, Hon. William Gray III (chairman) presiding.

The Chairman. The House Budget Committee will come to order.

Good morning, ladies and gentlemen. I am happy to bring the Budget Committee to the San Francisco Bay area, and welcome testimony from Mayor Feinstein and the other distinguished witnesses.

Today, the House Budget Committee concludes its 5 days of field hearings on the Federal budget for fiscal year 1987. These hearings have taken us, literally, from coast to coast. They have included Massachusetts, Florida, Illinois, Texas, and, now, the city by the bay, San Francisco.

Joining us today are several members of the Budget Committee: a senior member of that committee, Congressman George Miller and, also, we will be joined later by Congressman Vic Fazio, and Congresswoman Barbara Boxer.

These hearings will be of great benefit to our committee as we develop the congressional budget resolution for fiscal year 1987. The four earlier hearings have already covered a variety of budget issues, including Federal aid to State and local governments; Medicare and Medicaid and other health programs; job training; crime and drug interdiction programs; veterans' programs; farm programs; the impact of the budget on the oil and gas industry; defense spending; tax amnesty and tax collection programs; and the impact of the budget on the poor, the elderly, and the children of our great Nation.

Today's hearing will include the Federal role in protecting the environment, the Federal role in providing transportation assistance, and Federal support for higher education, and testimony on Federal funding for AIDS research.

These field hearings have focused in part on the partnership of Federal Government with State and local governments. The administrators of some of the programs funded by Federal grants and the participants in these programs can help describe the potential impact of proposed changes in the Federal aid system.

California, the Nation's largest State, received $91.7 billion of Federal funds in 1984, the largest amount in any State in America. This $91.7 billion included: $34.2 billion for Federal procurement programs; $32.7 billion for direct payments to individuals; $13.5 billion for salaries and wages; $9.8 billion for grants to State and local governments; $1.6 billion for other programs.

Both the State of California and the city of San Francisco have utilized these funds to provide for their citizens' basic needs, to develop the State and local economies, and to strengthen the economy in view of the growing international competition.

The $34.2 billion in Federal procurement included $28.5 billion for defense procurement.

The $32.7 billion for direct payments to individuals included $16.3 billion for Social Security payments, $7.2 billion for Medicare payments, and $4.8 billion for disability payments.

In addition, the $9.8 billion for grants to State and local governments included highway and mass transit aid, community and housing development assistance, education assistance, child nutrition aid, AFDC payments, revenue sharing, and many other programs of benefit to a large proportion of the State's population.

If the President's budget were to be adopted as submitted, we estimate that the State of California would lose at least $2.5 billion in Federal grant assistance. The hearing today should provide us with more details on the impact of the President's proposals on the people of the city of San Francisco and the State of California. We want to ask some basic questions: What effect would the budget have on environmental programs; what would be the impact on the delivery of health services to Californians; what would be the effect on housing, transportation, and education services?

We have recently heard the good news that unemployment has dropped to 6.6 percent. At the same time, we still have 7.8 million unemployed, and other serious problems such as black unemployment rate of 14.4 percent for adults. Surely, not everyone is sharing in the current economic recovery. A recent report from the Office of Technology Assessment indicated that 1.3 of 5.1 million workers who were "displaced" from 1979 to 1984 were still unemployed in 1984, while another 730,000 had dropped out of the labor force entirely. Even in California where the latest State unemployment statistics—November of last year—show unemployment at 6.6 percent, different localities had substantially higher rates, with Modesto at 13.7 percent; Stockton, 12.6 percent; Fresno, 12.3 percent; and Bakersfield at 11.1 percent. We want to learn what the President's proposed budget will mean to those who have not shared in the current economic recovery.

I want to express my deepest appreciation to the mayor and the other distinguished witnesses who have come today to these field hearings. We are deeply indebted and we look forward to your insights on these important issues.

Over 200 years ago, we chose a government, by the people, of the people, and for the people. And what has always made this country great is that "the people" means all the people. The budget decisions we make translate into the kind of government we have. It is our highest priority that we do not lose sight of the promise that is America. We have come to San Francisco to listen and to learn, and we will consider any and all suggestions that our witnesses care to offer to us today as we go back and begin the process of shaping a budget for the Federal Government for fiscal year 1987.

Let me conclude by saying that all of those who wanted to testify that we could not fit into the schedule today, we invite you to submit written testimony to Congresswoman Boxer's office, Congressman Miller's office, or Congressman Fazio's office, or Congresswoman Sala Burton's office here in San Francisco. That testimony will become a part of the permanent record. And you will have 10 days from today in order to submit that testimony in writing. We will look forward to reading it and sharing it as if you testified here this morning.

With those introductory remarks, let me again say how pleased I am to chair the Budget Committee of the House, where we have such able leadership from the great State of California, this whole bay area. We have Congressman George Miller, Congresswoman Boxer, and Congressman Dick Fazio, who have provided outstanding leadership in the U.S. House of Representatives on a variety of issues, but particularly on the issues of deficit reduction and budget priorities.

I would like to call on our colleague, the distinguished gentleman from California, the senior member of the Budget Committee, Congressman George Miller, to have opening remarks.

Mr. **Miller**. Thank you, Mr. Chairman.

Let me quickly say that, clearly, it is not news that once again the budget presented by President Reagan extracts from the poor and the children of this country a very, very heavy price to continue his massive military buildup. But the news in this budget is that it now attacks the very infrastructure of our communities in which we live. It seeks now to rob funds from our transit, from our housing programs, from our redevelopment programs, from our highway funds. It now seeks to rob money from those programs to continue this mindless military buildup that we have witnessed over the last 5 years, that has spent a trillion new dollars and that has made us no more secure today than we were 5 years ago. In fact, some military experts suggest that maybe we are not as secure as we were 5 years ago.

And I think that is the tragedy of this budget. You will hear from witnesses from around the State and mainly from the bay area, who I think will tell you that our very plans for orderly growth, for job opportunities, our efforts to link our region together by a mass transit system and a highway system that works, that can carry people back and forth across our bay and commerce on a daily basis, our chances of developing housing that is affordable to people now are threatened by this very budget. And that is what is different about this budget, that there is no longer enough money left in the programs for the poor to feed the military machine. So now we have moved up into the middle class, we have moved up into those programs that have allowed our cities and our suburbs to prosper. And now the choice is whether or not we will again rob those accounts to continue to feed this massive operation that is—as Congresswoman Boxer pointed out—daily riddled with scandal, cheating, and criminal activity against the very Government that has provided it the funds, in terms of the military contracts.

I welcome the mayor and look forward to her testimony. I think again we will see in her testimony the kinds of problems that this budget now presents to the orderly running of the city. And that is the light in which we must consider it.

And I thank you for again bringing the Budget Committee to our constituents and the people we represent so that they have an opportunity to testify directly in their own backyards on these subjects.

The CHAIRMAN. I would like to call now for opening remarks from Congresswoman Barbara Boxer, who has come to the U.S. House of Representatives and become a member of the Budget Committee very early in her congressional career; and has always made her impact in helping to shape budget priorities, and helping the House last year to pass a bipartisan deficit reduction package that reduced spending by over $50 billion; and, yet at the same time, maintained our commitment to infrastructure development and investment in human character. Congresswoman Barbara Boxer.

Mrs. BOXER. Thank you very much, Mr. Chairman.

First, I would like to welcome the entire panel to the beautiful city of San Francisco, which I have the privilege of representing, along with Congresswoman Sala Burton.

I would like to say to my constituents out there that it is a great privilege for me to serve with the gentlemen who are up here on this podium this morning. They are my friends, they are my mentors since I came to the Congress 3 years ago. Two of them and I have the honor of serving with Chairman Gray, on the Budget Committee. He is a great and an able chairman of this important leadership committee in the House. And Congressman George Miller is also my chairman of the Select Committee on Children, Family, and Youth; where I must say to you—and I know all of you are concerned about the issues that affect children, families, and youth—if it wasn't for Mr. Miller in the Congress of the United States, these issues would be buried and we really would not understand the impact of some of these cuts on the very fabric of our communities.

Mr. Chairman, I want to thank you so much for once again coming to the city and county of San Francisco. And I want to thank the witnesses—Mayor Dianne Feinstein, who I will have the privilege of introducing a little later, and the other witnesses for shedding light on this budget.

And the basic question is, Mr. Chairman, what kind of budget does our country need? President Reagan surely has given us his answer to that question when he submitted a $1 trillion spending plan which recycled his old favorites, increased Pentagon spending, and reduced, drastically reduced, domestic spending. The President wants the budget authority for national defense to go up $34 billion, an increase that represents more than he wants to spend for the entire transportation budget and environmental budget combined. Meanwhile, the President seeks on the domestic side to terminate so many Federal programs, sell Federal assets, charge new higher user fees, and shift some programs back to State and local governments.

I say, Mr. Chairman, if we pass a budget that only cherishes building more nuclear weapons in space and walks away from the other needs of America, our Nation is less for it. And this particular budget that the President has submitted certainly ignores the needs to balance the priorities of our Nation.

I want to just quickly quote in the last minute of this opening statement a comment from President Eisenhower's farewell address 25 years ago. I think it is quite relevant. He said:

> Each proposal must be weighed in light of its broader consideration the need to maintain balance in and among national programs, good judgment that seeks balance and progress. Lack of it eventually finds imbalance and frustration.

I wonder what President Eisenhower would think if he saw this budget proposal.

And I think that my colleague, Mr. Fazio, said it so well, and I hope it was not in his opening remarks. If it is, he will kill me. But he said it so well, my colleague, Mr. Fazio, in talking about the President's goal to get us to fly to Tokyo in 2 hours. And that would be wonderful. But what about the ability of our constituents to get to work in 1 hour? This is something that we have to be concerned about. It certainly does not seem to be something the President even thinks is a Federal issue. As a matter of fact, in the budget message, he wrote: "Transit is not a Federal issue because the benefits accrue locally."

What would President Eisenhower think about President Reagan's verdict on housing? In the State of the Union Address, Mr. Reagan praised, appropriately enough, a young man 11 years old, who brought blankets to the homeless. And we stood up and we applauded that young man, as indeed we should. But what are we doing about the homeless, Mr. President? In the budget, the President eliminates the emergency food and shelter program and section 202 housing assistance for the elderly and the handicapped. I think our country must do more than just look to 11-year-old children to solve the problem of the homeless, half of whom in San Francisco happen to be Vietnam veterans.

What about the environment, depleting park purchases, coastal grants, and other things? These are the things we are going to talk about. Pursuing some financial aid to students—there are so many other issues. And I will stop here because I know you are going to address these.

These are the important questions that must be answered. I am looking forward very much to hearing from all of you who I have the great privilege of representing in Congress.

Mr. Chairman, I am certain you want to call on Mr. Fazio at this time.

The CHAIRMAN. At this time, the Chair would like to recognize the gentleman from California, another senior member of the Budget Committee of the House of Representatives, for opening remarks; a colleague of mine not only in the Budget Committee, but also in the Appropriations Committee where he is what we call one of the cardinals. Those are the people who chair the Appropriations subcommittees. Now, in case you do not know the pecking order of the institution of Congress, let me make it clear to you—I may be chairman of the full House Budget Committee, but the folk who really have the power are the cardinals, the Chairs of the subcommittees of Appropriations. And that is Chairman Vic Fazio of the Appropriations Committee and the Budget Committee.

Mr. FAZIO. Thank you, Mr. Chairman. With that kind of introduction, you are well on your way to being Pope.

We do appreciate the fact that Bill Gray has brought the Budget Committee to northern California, and even more that during the entire week, when other Members were back in their districts campaigning, developing rapport with their constituents, Chairman Gray has taken the time and trouble to go across the country to hear from people who have concerns about deficits and about priorities in the budget. And I know he is the only member to be consistently present at every one of these meetings. We all owe him a debt of thanks for his efforts to enlighten the American people about the crisis that we face.

Of course, I am very pleased to be here today with my good friends and colleagues, Barbara Boxer and George Miller. I would like to thank all the witnesses who struggled to get here through the wind and rain this morning, as I did. I would particularly like to thank the mayor for spending as much time with us, as I know she will this morning.

A year ago to the very day, we gathered together in the same building to discuss the same subject, the mounting deficit and the impact the President's budget would have on California. I pointed out then that the deficit would not lead to the economic disaster in the short run; we would not see the country plunge into the abyss of depression or even recession because of the deficit. Barring default of a major financial institution or industrial giant, we would not see the mounting Federal deficit, a creeping disease, kill our economic body in one single blow. And a year since last Valentine's Day has borne this out: No recession has gripped the economy, no depression has spread throughout the land.

Even though the deficit would not lead to highly visible economic destruction, I concluded last year that the deficit was the most important economic and policy question before the Congress. The deficit's effects were virtually solid and very pernicious. The most obvious area to look at the straining effects of the deficit is in the realm of trade.

The fourth quarter of 1984 saw a trade deficit of $27.9 billion, which was noted with grave concern at our last hearing. Look at the figures now. For the fourth quarter of 1985, the trade deficit was an appalling $42.5 billion; an overall figure was the staggering $148.4 billion for all of 1985. This represents an unacceptable 20-percent decline in our competitive capability in the year—by two hearings.

The overvalued dollar, in spite of the Treasury's belated effort to bring it down, has led to a staggering amount of foreign goods flooding our markets. Markets for American goods are being lost, and with them the jobs and opportunities for future growth. And no one believes 1986 will be any better.

The other obvious area, the deficit, is sapping our economic strength and it creates pressure on the Federal budget. With the Federal debt mounting, the interest we are paying to meet the growing obligations is taking an even greater slice of the Federal pie. These are moneys that could be spent on meeting the needs of society that we all know exists. Instead, we are paying creditors to the tune of $150 billion a year, or 15 percent of our total trillion dollar budget.

We should not delude ourselves today. The pressure on the deficit is immense. While the automatic cuts mandated by Gramm-Rudman have been cast in doubt by a recent court decision, which found the automatic buzzsaw unconstitutional, there was an overwhelming sentiment on both sides of the aisle and in both Chambers of Congress to meet the target of $144 billion for 1987. The Supreme Court will not make a final ruling until later this year on Gramm-Rudman's automatic cuts. But, realistically speaking, if not legally, we in Congress are bound to meet the Gramm-Rudman target with a deficit that does approach the goals set by that legislation.

It will be no easy task, to say the least. The Congressional Budget Office discovered, after looking at the President's books for just 2 days, that the defense budget was $15 billion over the stated goal. We in the House, the Senate, and the administration need to get together on this problem. Local government cannot plan because of mixed signals in Washington. The Federal Reserve cannot set targets for interest rates because of doubts about the budget process. Business investment is held up because managers cannot decipher what is going on with the deficit and the tax bill.

We must convene a domestic summit to reach an agreement on deficit reduction. The sooner the better because October 1 is just around the corner.

I know the hearing today is going to help us set those priorities in the budget process. But let nobody have the delusion that we are not going to take up that task and meet it forthrightly. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Congressman Fazio.

Now we will proceed with our first witness, and I will call Congresswoman Barbara Boxer to introduce that first witness.

Let me just say one final thing. I will let it be known by all in this community that we feel that there is a major national crisis. It is an image that we created by fiscal policies of spend and spend, borrow and borrow. And the facts speak for themselves. In 1980, the total debt of America was $914 billion—George Washington to Jimmy Carter. Today, the debt is over $2 trillion. The facts speak for themselves. In 1980, the deficits were $50 billion. Now they are consistently over $200 billion. The facts speak for themselves. Despite calls for line-item vetoes and constitutional amendments to balance the budget, the President in six attempts has failed to give the Congress a balanced budget. The facts speak for themselves.

We in the House want to work to reduce this debt. And, clearly, this is not the time to play political partisan games. Therefore, we have said that this budget is not dead, as the President tried to imply on Wednesday in his press conference; it is alive. That is why we are in California, to listen to testimony, to hear what people think of this particular budget.

Second, I want it to be very, very clear, this chairman of the Budget Committee has not proposed, as implied, a revenue increase. We are holding hearings, listening to the public as to how to solve this problem. And I would hope that, through bipartisan cooperation, we are going to be successful reaching that goal Mr.

Fazio mentioned; that we can work together in sorting out the priorities and getting to the basic causes of the deficit, and coming up with a budget that reflects the needs of the American people.

At this time, we call upon Congresswoman Boxer.

Mrs. Boxer. Thank you again, Mr. Chairman.

It really is my privilege to introduce the mayor to the committee this morning. I had that same privilege just 3 weeks ago when Mayor Feinstein and Mayor Washington of Chicago, and others, appeared before our committee to talk about revenue sharing. At that time, we said to the mayor that she is not only an eloquent spokesperson for San Francisco, but for the cities across the country. And the city of San Francisco should be very proud of that.

Her comments on revenue sharing at that time were meaningful and exciting, and it was right before the President's budget came at us. And as soon as Mayor Feinstein heard of the budget, she phoned me in my office in Washington—it was about 7 in the evening—and she and I commiserated about what we were seeing at the first look at that budget.

At this point, she and her staff have had a chance to deeply analyze the budget. And we all look forward to her testimony this morning.

Welcome, Ms. Feinstein.

STATEMENT OF HON. DIANNE FEINSTEIN, MAYOR, CITY OF SAN FRANCISCO

Ms. Feinstein. Thank you very much, Mrs. Boxer.

I would like to welcome Chairman Gray and the Californians back home. I think it may be a little ironic that you are here on the worst day of the year to consider the worst budget in the history of this Nation.

I hope that these hearings will in fact bring to light some very real inequities that I believe exist.

Before beginning, Mr. Gray and members of the committee, I would like to submit some testimony from Mayor Terry Curtola of Vallejo, also in Congresswoman Boxer's district. He could not be here today, but he would like to submit Vallejo's response to the proposed cuts in CDBG; and, also, Richard Brann, the chairman of the board of supervisors of Salano County, has also submitted remarks in writing.

Mr. Gray and members of the committee, I in particular would like to thank Congresswoman Boxer. For me, one of my great treats in life is to see women open doors for others and, also, to see women grow. And I might say it has been a pleasure to see Congresswoman Boxer well represent this district. I am just so pleased and proud to see that you are there and doing the fine job that you are doing.

This budget essentially proposes to eliminate 40 domestic programs to help achieve about $38 billion in cuts to meet the so-called Gramm-Rudman limit this year. Also, it rescinds $10.3 billion from 79 programs funded in this year's budget. Now, that is significant because it means cuts of about $50 billion from various elements of the city and city programs across the board.

The budget also contains a recommended real increase in defense spending of 8.2 percent, which is an additional $32 billion over this year's $286 billion allocation.

Clearly, this kind of budget mentality is devastating to cities and people across the city, and, clearly, it will not be the kind of mentality that in the long run will be able to create a balanced budget.

I think it is important to note that in fiscal year 1985-86, San Francisco received over $536 million in State and Federal funds to pass through the city's budget process. This is approximately one-third of our entire budget. Our budget is about $1.7 billion.

If the President's budget is adopted by Congress, the impact on the city and county of San Francisco will be extensive. San Francisco stands to lose an estimated $77 million in direct funding if this budget is adopted. The irony is that this is more than twice what we would lose under Gramm-Rudman. So the President's budget very much impacts the city and county of San Francisco.

As I mentioned when I testified 3 weeks ago, it must be pointed out that San Franciscans pay much much more in Federal income taxes than they get back in all Federal service. But even the small percentage of get-backs has meant the existence of a local-Federal partnership in which the Federal Government has historically provided programs vital to the well-being of the poor in American cities throughout this land. This budget effectively destroys, once and for all, that partnership.

Let us look at some of the points of destruction. The first, of course, is general revenue sharing. A $4 billion national program is eliminated. In my city, this means a loss of $21 million to our general fund. Four front-line service departments—fire, police, recreation and parks, and transit—will lose over $5 million each to pay the salaries of hundreds of police officers, firefighters, transit operators, gardeners, and laborers.

This budget decimates our ability to provide affordable mass transit, by decreasing funds to the bay area MTC by $158 million, assuring the loss of any funds for operating assistance. That is an $8.9 million loss for San Francisco alone. Our capital improvements allocation, $20 million this year, $135 million over the last 4 years, has enabled us to purchase 185 new diesels, renovate our cable cars, and ensure adequate maintenance. The results of these cuts: The strong likelihood that fares will have to be increased once again, or service curtailed.

The administration also calls for privatization as an answer to mass transit. And I understand it prohibits the combined highway transit grant from actually going to transit. But the administration is saying sell or lease certain transit links to the private sector. Ironically, San Francisco's municipal railway was created when the private companies which had run our transit system went broke. Simply stated, they found they could not run transit and make a profit. First, the United Railroad Co. in 1927; second, the Market Street Railway Co. in 1944; and, finally, the California Street Railway Co. in 1951. I think that is eloquent testimony that privatization of municipal transit does not work. Yes, it works if you take the heavily traveled lines filled with commuters, but, in fairness, we cover the city and we cover areas where working people, where poor people live. And that is a very important part of the trans system because it enables them to go to a doctor; it enables them to get to work also.

Also, for many cities, the loss of revenue sharing and elimination of mass transit operating subsidies will force the layoff of personnel. They will raise transit fares even higher because 50 percent of the cities of this Nation cannot raise local taxes to cover the gap.

But the budget debate is really about the vision and role of a Federal Government that this administration would put in place. I believe it is a misplaced vision that believes that the Federal Government should not play a role in returning some of a city's tax money to provide housing for its poor, meal programs for its elderly, and transit for its workers. It is a vision that believes that the private sector is willing and capable to take up the slack. In my experience, this is an incorrect, a wrong, and a faulty vision.

The problems of the homeless, the problems of the mentally ill, the newcomer, the hungry are not solved by the private sector. And as much as we might want to believe that it is so, there are some, and sometimes there are many, who cannot care for themselves or help themselves. And so the responsibility falls to government.

The plight of huge roving bans of homeless around this country are eloquent testimony to this. So how we treat the least among us, as Albert Schweitzer once said, becomes the true test of a government or a society. And a government that turns its back on the least among us cannot be much of a government.

Now, for some specifics about what the programs propose for slashing or annihilation will produce for San Francisco.

The 431 jobs created last year in San Francisco through $6.3 million in Small Business Administration loans will not be repeated again, for the Small Business Administration is eliminated, if this budget remains intact. One example of an SBA success story is a bakery in San Francisco known as Just Desserts. The members of the committee should know that Just Desserts makes the best chocolate cake in San Francisco. It got its start from an SBA loan, and it now employs 200 San Franciscans and has a whole series of outlets across the city. Another is a duplicating and printing business known as the Copy Factory. It is located in our Hunter's Point community. And it was a one-man operation that, with an SBA loan, now has hired 100 people from the community, and is functioning.

In San Francisco, $17.8 million in UDAG grants the last 5 years have leveraged $89 million in private funds for two housing and six commercial industrial developments. They have created 2,300 jobs in deprived and blighted neighborhoods. Four vacant and blighted hotels were "rehabbed" with the assistance of these grants and CDBG. They now house 450 elderly citizens. UDAG ends if this budget remains intact.

Dollars for refugee resettlement and assistance are dramatically slashed in this city. And this city is the city of second highest migration in the United States. In other words, someone goes to a city first; the place they come to next the largest number of times is San Francisco. If this budget remains intact, the pressure will be on the local dollar through general assistance, where scarce dollars now compete with an increasingly homeless population.

Through community development block grants, San Francisco has received $21.3 million which was allocated among some 130 nonprofit community agencies. These agencies serve the poorest of our community—and many of them are here today—with special education, language programs, child care, employment counseling, legal assistance, and low-income housing. Community development block grants last year in San Francisco benefited 117,600 persons—some 40 percent of our lower income population—and they created 5,360 jobs. If this budget remains intact, this program receives the axe for the fifth consecutive time under this administration, and it would be reduced a total of 50 percent, from $29 million in 1980. And the proposed one-third funding reduction, from $21.3 to $14.6 million means the loss of 1,715 jobs this year. So this means that 37,650 persons will not be aided through any one of the nonprofit community agencies.

Under this budget, job training programs will be cut and ended. Job training for welfare mothers eliminated. The summer youth program reduced by one-third. Job Corps training for disadvantaged low income youth is cut nearly in half. The immigrant education program is eliminated. And a 44-percent cut in vocational and adult training is also recommended.

These cold numbers, though, affect human lives, here and across the Nation. Let me try to translate them into human terms with a true story that might not have occurred without help from the Federal Government.

Let me tell you about just one immigrant family in San Francisco, a family that is sitting in the first row directly behind me. From Hong Kong, the James and Li-Chu Yeh Ng family shared cramped quarters with another family in Chinatown. Their first child was born in January 1981, followed by twins that December, one with cerebral palsy. Mr. Ng was jobless and Mrs. Ng spoke no English.

First, the family was relocated to adequate housing in Hunters Point. Mr. Ng, refusing welfare, found work and the children were cared for by the Whitney Young Child Development Center, founded with $80,000 from the San Francisco community development block grant. They attended language classes; they now speak fluent English. The oldest child is doing well in kindergarten, and Jonathan is undergoing therapy for cerebral palsy. And Mrs. Ng is now the sponsor of a Chinese club at the center.

I am very proud to introduce to you Mr. and Mrs. Ng and their three children, Alexander, age 5, and twins, Josephine and Jonathan, age 4. Would you please stand? [Applause.]

They have presented me with this Valentine heart. And it says, "To President Reagan, Please don't cut out our heart." So I would ask that you relay that as well.

As mayor, I am responsible for submitting an annual budget and planning document for each year. And this year it has been particularly difficult because of the degree of uncertainty due to the situation in Washington. But in anticipation of the loss of some Federal support, particularly from revenue sharing, we looked at our situation and we bit the bullet. We told all city departments no supplemental budget requests would be granted, to prepare for possible cuts, and we took steps to raise revenues. Now you tell us we must take another $77 million cut.

We raised revenues because we had to, and that meant raising taxes and fees. But do you know, I received fewer than a half-dozen letters of protest, and broad community support. But it is important to analyze why would that be. I think I know why it is. I think people understand the element that if you have to cut, they understand; but they say one thing, do it fairly, do it across the board. And, second, if they know that the services are their vital services, they want to pay for those services provided there is no waste.

Here in San Francisco, we will balance our budget. We will cut if we have to, and we will raise revenues if we have to. But the irony is and the wrong is that despite our cutting, despite our revenue raising, and after all these years of whacking away at the cities of the Nation, at the poor, at students, at elderly, there is no federally balanced budget to show for it, only a greater deficit, the largest of all time. How very sad, how very unfair, and how very unnecessary.

The fact remains that the Federal Government, in dealing with budget deficits, must examine ways to raise revenues as well as cutting programs. For instance, a floating gas tax, pegged to the price of foreign oil, merits scrutiny. With oil prices dropping and the opportunity to raise $1 billion for each penny per gallon taxes, this proposal could bring in serious revenue and not reach the price of gas for the consumer in the year 1980—what it was in 1980.

With the need for revenues apparent and equity of equal importance, the establishment of a minimum corporate tax should also be examined. A private study released this week found that 44 companies with pretax profits of $53.6 billion between 1981 and 1984 paid no taxes whatsoever, and actually received $2.1 billion in tax rebates. One hundred and twenty-nine companies paid no taxes and earned rebates in at least 1 of the 4 years monitored.

U.S. corporations are not to blame for the deficit nor should they be shackled solely for reducing it, but they should share the burden. It is in their interest and in the national interest to do so.

Please do not turn your back on those in need of a helping hand. We are a national family. We are made up of cities, towns, and communities with diverse interests, strengths, and weaknesses. As members of a private family help each other, so the national family should not shun its role to help those who want to help themselves.

Finally, all of us who work with large budgets and are familiar with the Federal budget know that it cannot be balanced and the deficit cannot be eliminated by cuts alone. We all know you simply cannot cut enough to do it. We all know that there is only one way, and that is to make cuts fairly across the board and also to raise revenues.

To that end, as the mayor of San Francisco, I call upon the President of the United States to join with Congress to work out a bipartisan solution. It is long overdue.

Thank you very much.

[Testimony resumes on p. 666.]

[The prepared statement of Ms. Feinstein, with attachments, follows:]

PREPARED STATEMENT OF HON. DIANNE FEINSTEIN

Chairman Gray, distinguished members of the House Budget Committee, welcome to San Francisco and thank you for the opportunity to appear before you and testify on the proposed Federal budget for fiscal year 1986-87.

I hope these hearings will bring to light the real inequities that this budget will inflict upon San Franciscans and Americans across the country if adopted as proposed.

The proposed budget eliminates 40 domestic programs to help achieve $38 billion in cuts to meet the Gramm-Rudman limit this year. It rescinds $10.3 billion from 79 programs funded in this year's budget. These occur with a recommended real increase in defense spending of 8.2 percent—an additional $32 billion over this year's $286 billion allocation. The budget cannot and should not be balanced through cuts in domestic programs alone. A successful attack on the budget crisis must include means to raise revenues as well as trimming the fat from defense and domestic programs.

It is important to note that in fiscal year 1985-86 San Francisco received over $536 million in State and Federal funds that pass through the city budget process. This is approximately one-third of our city budget of $1.7 billion. If the President's budget is adopted by Congress the impact on the city and county of San Francisco will be extensive.

San Francisco stands to lose an estimated $77 million in direct funding if this budget is adopted. It must be pointed out that San Franciscans pay much more in Federal income taxes then they get back in all Federal services. But even this small percentage has meant the existence of a local-Federal partnership in which the Federal Government has historically provided programs vital to the well being of the poor in American cities throughout this land. This budget effectively destroys that partnership.

Let's look at some of the points of destruction:

1. General Revenue Sharing, a $4 billion national program is eliminated. In my city, this means the loss of $21 million to our general fund. Four front-line service departments—fire, police, recreation and parks, and mass transit—will lose over $5 million each in dollars that pay the salaries of hundreds of police officers, firefighters, transit operators, and laborers.

2. This budget decimates our ability to provide affordable mass transit by decreasing funds to the bay area MTC by $158 million, assuring the loss of any funds for operating assistance—an $8.9 million loss for San Francisco. Our capital improvements allocation, $20 million this year, $135 million over the last 4 years, has enabled us to purchase 185 new diesels, renovate our cable cars, and ensure adequate maintenance. The result of these cuts? The strong likelihood that fares will have to be increased again or service curtailed.

The administration calls for privatization as an answer to mass transit. In other words, sell or lease certain transit routes to the private sector. Ironically, San Francisco's municipal railway was created when the private companies which had run our transit system went broke, first the United Railroad Company in 1927, then the Market Street Railway Company in 1944, and finally the California Street Railway Company in 1951.

Also, for many cities, the loss of revenue sharing and elimination of mass transit operating subsidies will force the lay-off of personnel—like firemen, policemen, street maintenance crews, and others—and raise transit fares even higher, as 50 percent of these cities cannot raise local taxes to cover the gap.

The budget debate is really about the vision and role of government that this administration would put in place, a misplaced vision that believes the Federal Government should not play a role in returning "some" of a city's tax money to provide housing to its poor, meal programs for its elderly, and transit to its workers. It is a vision that believes that the private sector is willing and capable to take up the slack.

In my experience, this is an incorrect--a wrong—a faulty vision. The problems of the homeless, the mentally ill, the newcomer, the hungry are not solved by the private sector—and as much as we want to believe it not to be so—there are some—and sometimes—many—who cannot care for themselves or help themselves. And so the responsibility falls to government. The plight of huge roving bands of homeless throughout our cities are testimony to this.

So how we treat the least among us, as Albert Schweitzer once said, becomes the true test of a government—or a society. And a government that turns its back on the least among us—cannot be much of a government.

Now for some specifics:

The 431 jobs created last year in San Francisco through $6.3 million in Small Business Administration loans will not be repeated again, for the Small Business Administration is eliminated if this budget remains intact. One example of an SBA success story—Just Desserts, a bakery. They make the best chocolate cake in San Francisco, and employ 200 San Franciscans, thanks to an SBA loan which gave them their first step. Another example, the Copy Factory. A one-man operation that now employs 100 people in the reviving community of Hunters Point, thanks to an SBA loan.

In San Francisco, $17.8 million in UDAG grants the last 5 years have leveraged $89 million in private funds for two housing and six commercial/industrial developments and created 2,300 jobs in deprived and blighted neighborhoods. Four vacant and blighted hotels were re-habbed with the assistance of these grants and CDBG funds. They now house 450 elderly citizens. UDAG ends if this budget remains intact.

Dollars for refugee resettlement and assistance are dramatically slashed in this city—the city of highest secondary immigration in the United States. If this budget remains intact, the pressure will be on the local dollar through general assistance—where scarce dollars compete with an increasing homeless population.

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Community development block grants, last year, in San Francisco benefited 117,660 persons, some 40 percent of our lower income population, and created 5,360 jobs. If this budget remains intact, this program receives the axe for the fifth time under this administration, reduced a total of 50 percent from $29 million in 1980.

And the proposed one-third funding reduction, from $21.3 million to $14.6, means the loss of 1,715 jobs this year. It means 37,650 persons will not be aided through any one of the nonprofit community agencies.

Under this budget, job training programs will be cut and ended, job training for welfare mothers [WIP] eliminated, the Summer Youth Program reduced by one-third. Job Corps training for disadvantaged low-income youth cut nearly in half. The Immigrant Education Program is eliminated, and a 44-percent cut in vocational and adult training is also recommended.

These cold numbers affect human lives, here and across the Nation. Let me translate them into human terms, with a true story that might not have occurred, without help from the Federal Government. Let me tell you about just one immigrant family here in San Francisco, a family that was referred to a CDBG funded child care center 5 years ago.

From Hong Kong, the James and Li-Chu Yeh Ng family shared cramped quarters with another family in Chinatown. Their first child was born in January 1981, followed by twins that December—one with cerebral palsy. Mr. Ng was jobless and Mrs. Ng spoke no English. First, the family was relocated to adequate housing in Hunters Point. Mr. Ng, refusing welfare, found work, and the children were cared for by the Whitney Young Child Development Center, funded with $80,000 from San Francisco's community development block grant. They attended language classes and now speak fluent English. The oldest child is doing well in kindergarten, and Jonathan is undergoing physical therapy for his cerebral palsy. And, Mrs. Ng is the sponsor of a Chinese club at the center.

I am proud to introduce to you Mr. James and Mrs. Li-Chu Yeh Ng, and their three children—Alexander, age 5, and twins Jospehine and Jonathan, age 4.

As major, responsible for submitting an annual budget and planning for it each year, this year has been particularly difficult because of the degree of uncertainty due to the situation in Washington.

In anticipation of the loss of some Federal support, particularly from revenue sharing, we looked at our situation and bit the bullet—we told all city departments that no supplemental requests would be granted, to prepare for possible cuts, and we took steps to raise revenues. Now, you tell us we must take another $77 million cut.

We raised revenues because we had to—and do you know I received fewer than a half dozen letters in opposition and broad community support. I believe there is a lesson here for the Federal Government—that people will pay for services they need, if everyone pays a fair share, if there is no waste.

Here in San Francisco, we will balance our budget, we will cut if we have to, and we will raise revenues if we have to. But, the irony is that after all these years of whacking away at the cities of the Nation, at the poor, at students, at elderly, there is no Federal balanced budget to show for it, but only a greater deficit—the largest of all time. How very sad, how very unfair, how very unnecessary.

The fact remains that the Federal Government, in dealing with budget deficits, must examine ways to raise revenues as well as cutting programs. For instance, a floating gas tax pegged to the price of foreign oil merits scrutiny. With oil prices dropping, and the opportunity to raise $1 billion for each penny per gallon taxed, this proposal deserves serious study and consideration.

With the need for revenues apparent—and equity of equal importance, the establishment of a minimum corporate tax should also be examined. A private study released this week found that 44 companies with pre-tax profits of $53.6 billion between 1981 and 1984 paid no taxes, and actually received $2.1 billion in tax rebates! 129 companies paid no taxes and earned rebates in at least 1 of the 4 years monitored.

U.S. corporations are not to blame for the deficit, nor should they be shackled solely with reducing it. But they should share the burden! It is in their interest, the national interest, to do so.

Please do not turn your back on those in need of a helping hand. We are a national family, made up of cities, towns and communities with diverse interests, strengths, and weaknesses. As members of a private family help each other, so the national family should not shun its role to help those that want to help themselves.

Finally, all who work with large budgets and are familiar with the Federal budget know that it cannot be balanced and the deficit cannot be eliminated by cuts alone. There is not enough to cut. We all know there is really only one way—to make cuts fairly across the board and to also raise revenues. To that end, as mayor of San Francisco, I call upon the President of the United States to join with Congress and to work out a bipartisan solution. It is long overdue.

Attachments.

OFFICE OF THE MAYOR,
San Francisco, CA, February 13, 1986.

MEMBERS OF THE BOARD OF SUPERVISORS,
City Hall, San Francisco, CA.

DEAR LADIES AND GENTLEMEN: Last Thursday President Reagan released the administration's proposed budget for FY 87.

The key features of the President's budget proposal are: No tax increases; an increase in defense spending of approximately $34 billion; and domestic cuts of approximately $38 billion.

The President has taken the political tack of not requesting any tax increases in his proposed FY 87 budget. While he is proposing to raise some minor revenues through the sale of the Tennessee Valley Authority and selected petroleum reserves as well as increasing user fees, this will generate only about $6 billion.

The President has proposed an overall defense spending increase of approximately $34 billion. This would raise the total defense expenditure proposed for FY 87 to just over $320 billion—an astounding increase when you realize that in 1980 defense spending was only $134 billion.

The major "impacts" of the President's budget will be felt on the domestic side through proposed reductions in domestic spending in FY 87 of $38 billion. The President proposes to get this $38 billion in cuts in the following way.

(1) The rescission of $10.3 billion in already approved and authorized FY 86 funds. This will impact some 79 federal programs, many of which in turn affect the City and County of San Francisco.

(2) Elimination of over 40 federal programs, many of which serve the City and County of San Francisco.

(3) The reduction and consolidation (with reduced funding) of many federal programs.

The President hopes through the elimination and reduction of federal programs to generate over $28 billion in reduced federal spending for domestic programs in FY 87.

A list of the administrations proposed rescissions, terminations and reductions is attached for your review. Also attached is a summary of what we feel are some of the estimated possible impacts on San Francisco city government, on departments and programs that broadly benefit San Francisco, and, on business in San Francisco.

It is important to note that in FY 85/86 San Francisco received over $536 million in state and federal funds that pass through the City budget process. This is approximately one-third of our city budget of $1.7 billion. If the President's budget or a budget basically similar to it is passed by Congress, the impact on the City and County of San Francisco will be extensive.

Some specific programs that may be affected will include:

The loss of revenue sharing funds some $21 million a year which go to support Police, Fire, Muni and Rec-Park activities.

Muni operating and capital grants of $30 to $50 million a year will either be eliminated or reduced significantly.

Numerous health grants coming to San Francisco General Hospital and the Health Department for programs such as AIDS research are marked for reduction.

Sewage treatment funds are going to be restricted to existing programs and then phased out by 1990 putting at risk over $110 million in projects requiring federal funds and jeopardizing over $25 million in state funding.

Federal Aid Urban monies are also earmarked for reduction and termination. These monies directly assist Muni and DPW fund street repair.

In addition to these large impacts, numerous city departments from the Purchaser (who gets a grant from the department of commerce to fund our MB/WBE program) to the Commission on Aging to the Arts Commission to the Planning Department all receive federal assistance.

Aside from direct federal funds that flow to the City, a large amount of federal funding flows directly to assist the private sector in the form of SBA loans or Urban Development Action Grants or to fund assistance to community groups. Low income, elderly, the homeless, etc. These programs include AFDC, Community Development Block Grants and refuge assistance and housing programs.

The impact on the City of the loss of these federal funds is both direct and indirect. Direct loss results from the loss of current and future year funding. The indirect impact is in the form of "lost leverage" to generate private capital investment in the City or job creation and the loss of direct Federal support to individuals.

As an example, SBA loans last year helped create 431 jobs by supporting small business activity in the City for which other funding is often not available.

The Community Development Block Grant program last year benefited over 117,000 people (over 40% of our low income city population). Over 5,000 jobs were directly created through this program and the loss of funding would mean that these 117,000 served people through 130 non-profit community agencies will not get this needed service.

Urban Development Action Grants are also earmarked for termination. In the last five years, nine actions grants have been funded representing a Federal investment of over $19 million which in turn created in San Francisco over 2,700 jobs and leverage close to $100 million in private investment.

The loss of these federal dollars will have an immense impact on people and the city as a whole. Thousands of jobs will not be created and millions in private funds will not be invested in the City. Thousands of people who can least afford to pay the full cost of needed services will be faced with the termination of those services.

As a final note, it is obvious that President Reagan is initiating not just a termination and reduction of some federal programs but the President is proposing the termination of the basic federal, state and local partnership that has existed for generations.

The irony is that it has been under the Reagan administration that the problem of national deficits has emerged as a major financial crisis. It is the spending policies and program priorities of the Reagan administration, still reflected in the proposed budget, that have created the huge deficit gaps that now have to be filled at the expense of programs that care for the elderly, the handicapped, or those basically dependent on society for general assistance. Hardest hit are those programs where the constituencies are least able to defend themselves to the benefit of an ever increasing federal defense budget.

A further irony is that states, local governments and individuals who are the primary beneficiaries of the services that the President is proposing to terminate are being asked to continue to pay for a federal government that is cutting their basic level of domestic service.

The truth is that the President has imposed a tax increase on the American people—it is a tax increase because the cost of government is going up relative to the level and quality of Domestic services being provided to the American people.

Sincerely yours,

DIANNE FEINSTEIN, *Mayor.*

REAGAN FY 1987 BUDGET IMPACT ON SAN FRANCISCO (SELECTED PROGRAMS)

[In millions]

	Current funds	At risk (funds through 1990)
Direct impact on departments:		
Revenue sharing	$21	$84
Muni operating grants	8.9	35.6
Muni transit funds (section 3 grants)	[1] 20	80
Muni capital funds	20	80
Health grants	1.5	6
Sewage treatment funds (loss of $25 million State dollars)		110
Federal aid urban	3.1	12.4
Other city departments (purchaser, planning, aging, arts)	2.5	10.0
Potential Federal dollar loss	77	418
Other selected impacts:		
SBA loans	$6.2	$25.2
UDAG's	.542	2
AFDC ($40.7 cut 14 percent)	5.6	22.4
Highway funds:		
I-280 funds		10
Embarcadero Freeway		24
CDBG	14.6	58.4
Refugee assistance ($2.5 cut 50 percent)	1.25	5
Housing authority	12.8	61.2
Potential Federal dollar loss	40.9	208.2

[1] 5-yr average Federal support.

CITY OF SACRAMENTO,
Sacramento, CA, February 11, 1986.

Mayor DIANNE FEINSTEIN,
City Hall, San Francisco, CA.

DEAR MAYOR FEINSTEIN: I understand that you will be testifying before the House Budget Committee on Friday, February 14, 1986. I and the Sacramento City Council join you in urging Congress to rescind the proposed budget deferrals of CDBG funds. Since 1980, Sacramento CDBG funding has been cut by almost one half—from approximately $11 million to $6 million. This program cannot face further cuts if it is to function effectively.

In Sacramento, CDBG provides essential funding for our homeless programs, our economic development programs, our neighborhood centers, and our Human Rights and Fair Housing Commission. CDBG funds have also been used for major physical improvements to our target areas, neighborhoods abandoned by private investors. The CDBG program is the last remaining Federal Urban Aid program for low income, minority, handicapped, and other disadvantaged persons, and further cuts in CDBG cannot be construed as anything but cuts to basic services and improvements.

Finally, Sacramento expects to lose approximately $5 million in general revenue sharing. This means that CDBG funds cannot be replaced through the City's General Fund. Consequently, we are faced with severe cutbacks to the programs and the neighborhoods which need these services the most.

I thank you for sharing Sacramento City's grave concerns about the CDBG deferrals at this important committee hearing.

Sincerely,

ANNE RUDIN, *Mayor.*

SUNNYVALE CITY COUNCIL,
Sunnyvale, CA, February 12, 1986.

Hon. DIANNE FEINSTEIN,
Mayor, San Francisco,
San Francisco, CA.

Re: House Budget Committee field hearing—support for Community Development Block Grant.

DEAR MAYOR FEINSTEIN: The Sunnyvale City Council supports the CDBG Program, and is opposed to any further reductions to this program. CDBG funds have been instrumental in implementing our city's housing strategy and providing affordable housing to citizens of Sunnyvale.

Sincerely,

BRIAN O'TOOLE, *Mayor.*

CITY COUNCIL,
Santa Cruz, CA, February 13, 1986.

Mayor DIANNE FEINSTEIN,
City Hall,
San Francisco, CA.

Housing and community development funds are critical for the welfare of our citizens. These funds have provided safe housing, legal services and medical care for poor and minority households. In our behalf, please urge the House Budget Committee to reject the President's proposal to reduce the block grant program.

Mayor Michael E. Rotkin, and members of the Santa Cruz City Council.

CITY OF BERKELEY,
Berkeley, CA, February 11, 1986.

Mayor DIANNE FEINSTEIN,
City Hall,
San Francisco, CA.

Re: Congressional Budget Hearing—February 14.

The city of Berkeley strongly supports the Community Development Block Grant Program as it is our primary source of funding for housing and community development activities. We feel the deferral of 500 million dollars in CDBG allocations is unconstitutional and should be repealed by Congress. We strongly urge the full reauthorization of CDBG and disapprove further reductions in the program.

EUGENE NEWPORT, *Mayor.*

CITY OF MARTINEZ,
Martinez, CA, February 10, 1986.

Mayor DIANNE FEINSTEIN,
City and County of San Francisco,
San Francisco, CA.

It has come to my attention that this week you will be presenting testimony in support of the Community Development Block Grant Program. The city of Martinez strongly supports continued funding of this important program. CDBG funding has long been an essential tool in the development of our city. We appreciate your efforts.

JAMES JAKEL,
Economic Development Director.

The CHAIRMAN. Thank you very much for your very pointed, fact-filled, and specific illustration in your testimony. You did very well with your time, and we would like to have the opportunity to ask a few questions.

You have just introduced a family who basically has benefited from the programs that carve out a partnership among local, State, and Federal governments. A week ago, the President made a major address to the Nation on the State of the Union, talking about family and family values. I think he used the word 16 times in the State of the Union Address.

As you look at this budget, with a discretion of public values and policy, do you find that this budget supports the eloquent statements in the State of the Union Address of strengthening our families and doing for our families, in light of the illustration of the Ng family that you put before us? Do you find this budget profamily or antifamily?

Ms. FEINSTEIN. Mr. Gray, you have asked me a direct question and I am going to answer it directly. This budget is not profamily.

One of the great strengths of the President is that he is able to communicate a fine message. And people like to hear what is said. We all want to believe what he believes. But the fact that confronts every mayor across this country is that there are exceptions to the Reagan dream, and those exceptions are great in number. They are by the thousands and they are by the millions. They are in the unemployment lines, they are elderly, they are shut-in's, they are immigrants, they are minorities. They are people for whom the Government is very meaningful. And they are the people that many of us go into government to try and serve.

The CHAIRMAN. Let me ask one other question. We want to acknowledge that Governor Deukmejian, the Governor of this great State of California, could not be with us. We invited him to submit preliminary testimony for the record. He will be submitting more specific testimony a little bit later. I would like to acknowledge that the Governor has said essentially in his opening testimony that he supports the goals of the President. But there is a question I would like to ask you as a local official. Of course, you have a different perspective, I am aware.

In the Governor's preliminary statement, he says: "However, I am encouraged by a preliminary review of the proposed budget, which indicates that combined public and private sectors of California will receive an increase in Federal dollars in 1987." That is an exact quote from his preliminary testimony.

You have said, as you look at the budget from the point of view as the mayor of one of California's largest cities, that there is a significant decrease. Since you are in a leadership role in the U.S. Conference of Mayors, and, therefore, you would represent not only San Francisco, but Los Angeles and San Diego; as you have looked at it from a Conference of Mayors' point of view, do you find the support for this kind of a statement that California actually would receive an increase?

Ms. FEINSTEIN. No, sir; I do not. And I, frankly, do not understand how that can possibly be. I have accompanied my presentation with a specific chart which is in a letter that we are sending to the board of supervisors, that documents the cuts to San Francisco that we know of at this point in time. If the budget is sustained, I do not know how San Francisco could possibly receive more money with those cuts.

The CHAIRMAN. Or California?

Ms. FEINSTEIN. Or California. And you must realize that one-third of our budget is made up of State and Federal moneys. So that is why those moneys are so important to us.

The **Chairman**. Will you please answer the following question using your best estimate? If this budget was presented to the U.S. Conference of Mayors, which is a bipartisan organization, as I understand it, what do you think would be the level of support? Would there be strong support from mayors across this country, regardless of whether they are Democrats or Republicans?

Ms. **Feinstein**. Well, Chairman Gray, as you know, I head the Urban Economics Committee, where these matters come up. And you were good enough to testify before that committee a few weeks ago in Washington. There is no support that I know of in the Conference of Mayors for the cuts in revenue sharing, for the cuts in CDBG, for the cuts in UDAG. SBA has not been specifically discussed. But I would have to say that the greater proportion of mayors, certainly 75 to 80 percent of them, do not support the cuts in the budget.

The **Chairman**. Thank you, Madam Mayor, for your testimony. We certainly do appreciate your very pointed comments and using very specific illustrations.

Gentleman from California, Mr. Miller.

Mr. **Miller**. Thank you, Mr. Chairman. And thank you, Mayor, for your testimony.

You mentioned the table that you attached to the letter from you to the board of supervisors. And if I read that table correctly, over the next 5 years, you are suggesting to the board of supervisors that if we were to adopt this budget—and I might confirm what the chairman has said; this budget is not dead, this budget is under active consideration in the Congress and, hopefully, will be changed. But this is the blueprint from which we will deviate should we decide to do so.

You are telling your board of supervisors that you would lose in excess of $600 million of revenue—of moneys that are now available to the city?

Ms. **Feinstein**. If——

Mr. **Miller**. If you have 418——

Ms. **Feinstein**. In the "At Risk" column, if you add the $418 million with the other impacts of $208 million, that is correct, through 1990.

Mr. **Miller**. And if you take the current funds, it looks to me around $120 million in current funds. You mentioned that you have just gone through a tax increase in the city, with support. Where do you find that $100 million should you desire to maintain current services?

Ms. **Feinstein**. It is very difficult because that—I think one of the problems with the Reagan philosophy is that the Federal Government has lowered taxes, but has virtually forced tax increases locally throughout the Nation if you are going to be able to sustain services. And I think that is one of the outgrowths of this kind of budgeting.

Mr. **Miller**. Do you think you have the ability to raise taxes $600 million over 5 years?

Ms. **Feinstein**. No; there is no question about it; we do not have that ability and to sustain a healthy economic climate. We have been very reluctant to raise taxes. We raised them once in 1980. We were able to lower them because we were able to create a surplus situation at one point. That surplus is gone. And the situation is changing dramatically now with these added cuts.

Mr. Miller. Well, I appreciate your testimony because I think, again, it gives a very graphic portrayal of the fact that this budget—and if people will look at the letter from you to the board, it clearly portrays the fact that it rips at the very fabric of the city that you are trying to run, trying to hold together, and trying to provide services. And I think the other thing that is interesting from it is that, again, it rips at the very fabric without regard to social economic lines. It is going to take away from programs and services that every citizen in this city uses—and I think people ought to be aware of that, and the manner in which you and the board have tried to provide those services to this city; is really a rather remarkable threat to the quality of life in San Francisco.

I really appreciate you taking so much time with the committee, Ms. Feinstein. Thank you very much.

The Chairman. The gentlewoman from California, Mrs. Boxer.

Mrs. Boxer. Thank you, Mr. Chairman.

Madam Mayor, I just want to thank you so much for your testimony. It was right on target and gives all of us tremendous ammunition to fight against this antifamily, mean-spirited budget. You gave us facts and figures and thoughts.

I wanted to also state to you—some of you may not know—you talked about the irony of the privatization of transit. And you pointed out that in San Francisco the private sector could not do it, and it was forced on the public sector. The same thing happened in Marin County, which I also represent. And, as you know, Greyhound just threw up their hands and said, "This isn't profitable; we're walking away." And the Golden Gate Bridge District came into the picture, which is a governmental entity, and has provided a transit system using, in part, the tolls from the Golden Gate Bridge.

So to just say that the private sector will handle our needs, as you point out, is unrealistic and is a cruel hoax on the American people.

I have just one question. It is rather a political one.

As Congressman Miller pointed out, this budget is very much alive. And it is the intent of Chairman Gray to bring this President's budget to the House floor for a vote, to once and for all test the real facts behind the Reagan rhetoric to see if this budget is going to be acceptable to the American people through their representatives.

I think it is very important that your organization, the Conference of Mayors, get actively involved in a superactive way this year to make some of the points you have made.

Is there an intention on the part of that organization to really hit the ground and help us as we seek to get this budget to the floor and defeat it?

Ms. Feinstein. Yes, there is, Congresswoman Boxer. At the meeting, the midwinter meeting in Washington, the mayors have all agreed to go home, to organize people. You see some of the organization of San Francisco here in this room now. I would be surprised if there were too many people here in support of the budget. And we will work from the trenches to try to bring you the support in the Congress to do what is necessary to achieve some fair and balanced cutting, as well as maintain our programs.

Mrs. **Boxer**. Well, we will need that help. And this is moving on a fast track. We are hoping we will work together because we need that bipartisan opposition to surface. Thank you.

The **Chairman**. The gentleman from California, Mr. Fazio.

Mr. **Fazio**. Thank you, Mr. Chairman. I would like to make one comment before I ask a question. This is in relation to Governor Deukmejian's letter.

The only thing I can imagine the Governor was thinking about when he said that California would come out ahead on this budget is the $31 billion, by the way, not a $16.4 billion increase in military spending that is built in the budget. Obviously, we do have a large aerospace defense complex throughout our State, heavily located in southern California. And there may well be, as a result of increased defense spending in this budget that has been submitted, the anticipation that those additional dollars will flow to California.

While I want to affirm Congressman Miller's statement that this is a live budget, I think I can say without too much fear of contradiction that there are very few members of either party, in either body, who anticipate any kind of increase in military spending this year, as a result of the deficit problems we face and the other inequities that you have so forthrightly outlined in your statement. So if the Governor is counting on another increase in defense spending giving the economy of our State an additional boost, I think he is sadly mistaken.

I would like to just ask you an additional question. You indicated how difficult it would be to raise revenue at the local level to make up for these $2.5 billion in estimated cuts in domestic programs that would flow out of this budget's priorities. It is my impression—and as the only elected official who will be appearing before us today, I think you are the only one we can look to for an answer. The restrictions that have been placed by various initiatives, proposition 13, proposition 4 and others, on both the State and the local governments of our State, make it impossible. Even if there was a will, there is no way that we could find the revenues to replace these kinds of very deep cuts on programs.

Would you care to comment about the particular problems we would face in California in trying to replace this Federal revenue at this point in our history?

Ms. **Feinstein**. I can really only comment on San Francisco with some specificity. But there is simply no way to be able to replace the Community Development Block Grant Program, the Small Business Administration, the welfare-oriented cuts, the health cuts. There—we will have to replace some of the transit moneys, somehow, some way, just to keep the transit system able to carry the people. That is one of the big problems.

The bus buys, which have meant our ability to replace aging vehicles, that would be gone because the capital program would be gone.

I will have to say that I do not know of a way to replace all of this money at the present time without having a very real local problem because it is so great. And there is another thing about some of this money, and this is particularly in the capital and the operating grants of Muni, which are large indeed. This money appears to be hidden because it has been there, and so it has been used. When the money is removed, the gap is for everybody to see. And when people see things is when they are faced with the cut. It is like your household budget; you do not realize it until you do not have the money to pay those bills. And that is what is going to be increasingly happening on a local level.

Mr. FAZIO. I want to thank you for your testimony. You have brought very much down to Earth the high floating numbers that are thrown around. I think you have made it very clear to the committee, and I am sure we will find it very useful in our budget deliberations this year.

Ms. FEINSTEIN. Thank you, Mr. Fazio. Thank you very much.

The CHAIRMAN. Thank you very much, Madam Mayor.

We thank the mayor, who has stayed beyond her time, as we started a little late.

The Chairman now calls our panel on the impact on the quality of life: Dr. David Werdegar, director of public health, city and county of San Francisco; James Kinney, Mortgage Bankers Association of San Diego; Douglas Wheeler, executive director, the Sierra Club, San Francisco; William Latham, assistant general manager for consumer services, Sacramento Municipal Utility District; and Edith Kaneshiro, University of California Student Lobby, Berkeley; and Tom Malinowski, University of California, National Student Lobby.

If those persons would come forward and take seats at the witness table, we will begin with our next set of witnesses.

Thank you very much to this panel for agreeing to share with us your views on a large variety of subjects. First, I would like to call upon the panel in this order, if you will. I would like to start off with Ms. Kaneshiro; Mr. Malinowski; then Dr. Werdegar; then Mr. Kinney; Mr. Wheeler; and Mr. Latham in that order, if you will.

Your written statements will be placed in the record in their entirety. If you will just summarize the major points, that would allow us to get to questions and answers a lot faster.

With that in mind, let us begin in the order that we set.

Mr. MILLER. Would the gentleman yield?

The CHAIRMAN. I will yield to the gentleman from California.

Mr. MILLER. We have had written testimony submitted by Congresswoman Sala Burton, who is unable to be with us today; also, Mayor Lionel Wilson; a number of the various public agencies around the San Francisco Bay area; and I think also, as you pointed out, Governor Deukmejian. I would like to move that that written testimony be made part of the permanent record of this hearing.

The CHAIRMAN. Without objection, those testimonies will become a part of the permanent record.

Let me just say that Congresswoman Sala Burton, who also represents San Francisco very ably on the Rules Committee, could not be here because of illness. I believe she has a little touch of that east coast flu that she brought back from Washington. Her staff is here and represented, and they have informed me that she regrets not being here. So we will certainly include those in the record, without objection. Now let us begin, starting with Ms. Kaneshiro.

STATEMENT OF EDITH KANESHIRO, UNIVERSITY OF CALIFORNIA STUDENT LOBBY, BERKELEY

Ms. **Kaneshiro**. Good morning, members of the committee. I am here to speak on behalf of students receiving financial aid. And this is my first time doing this, so please bear with me.

As of today, I believe that college is not restricted to the upper middle class. Yet talks of reducing student aid make me wonder whether or not a college education would be limited to this elite. If student aid is going to be drastically reduced, I believe that college will be for these select few, and I will not be a part of it.

I am a UC student who depends upon a Pell grant, a Cal grant, a GSL, and various merit scholarships, and I am not unique. There are many other students like myself.

At the Berkeley campus, I work as an equal opportunity affirmative action peer advisor. In this role, I am continually reminded of the many students who depend on financial aid. If financial aid is going to be reduced according to the proposed cuts, these are the few effects which I foresee.

First of all, reducing financial aid will change the face of the university.

Mrs. **Boxer**. Excuse me. Could you move closer to the microphone, please?

Ms. **Kaneshiro**. OK.

If financial aid is going to be reduced according to these proposed cuts, these are few of the effects which I foresee.

First of all, reducing financial aid will change the face of the university. It is not a coincidence that many black, Hispanic, native-American, and Asian students depend on financial aid. Therefore, a reduction in aid will most likely lessen the minority student population.

Second, reducing financial aid will consequently force students to work a good number of hours. This can have an adverse effect on the student. Freshmen and sophmores are considered high risk students, in that they are still trying to adjust to the university system. If forced to work, they will be put in a greater risk group. They will be the ones most likely to drop out. Many students who work while in school do poorly in school.

Third, many qualified and deserving high school students will have little hope of attending college. I have many friends who have stayed at the junior college level because a university education would be too expensive.

And, most importantly, I think a cutback will greatly affect the quality of education in the classroom. When students have to divide their time between work and school, students seem to be less productive in the classroom. I can say that it is physically and psychologically exhausting to be a student.

In addition, college is expensive and is getting more expensive every year. Many students come to our office worrying about interest rates on loans, worrying about the debts that they will be accumulating, and worrying about the effects that working will have on their grades. I, myself, have these worries, too. If financial aid were reduced, I would not be able to attend college. My sister, my three brothers, and I will constitute the first generation in our family to go to college and to graduate from college. Federal student aid has affected us for the last 5 years and will affect us for the next 7 or 8.

If Federal aid was limited, I and my siblings would not be able to attend college, let alone attend the college of our choice. It costs me approximately $7,000 a year to attend Berkeley. Tuition is $1,300, books and supplies about $400, housing about $3,200, food about $1,500, and figure about $1,000 for utilities and laundry, et cetera, about $1,500 a year. And I receive about $4,400 in grants and scholarships and $2,500 from a GSL. From my work, I earn about $250 a month.

It is very expensive to go to school. It is expensive to buy books. It is expensive to live in a dorm. It is expensive to find cheaper housing than a dorm. And many students have to drop out because they cannot meet these expenses. And many low-income students would probably not qualify for market rate loans.

It is quite difficult for single parents to finance their children's educations, and it is even difficult for two working parents to finance a college education. Both my parents work. My father is a gardener and my mother works in food service. It would be virtually impossible for my parents to send all five of us to college.

Realizing that I was going to college, I assumed my own responsibilities. I worked throughout high school and I still work while in college. Yet this is not enough. Without financial aid, without a college education, I could never become the teacher that I wish to be. Student aid is not a handout; it is an investment. We are not here to have a good time. We have goals that can be realized only through a higher education. Eventually, we will be productive taxpaying citizens; yet without an education, these things will never happen. Thank you.

The CHAIRMAN. Thank you very much. That is a very fair description of what student aid does for you and your efforts to achieve your dream in this Nation. Would your parents happen to be here today?

Ms. KANESHIRO. No; they are in Los Angeles.

The CHAIRMAN. Thank you.

Now we will hear from Tom Malinowski of the National Student Lobby from the University of California.

Tom, we appreciate it, and please summarize your testimony.

STATEMENT OF TOM MALINOWSKI, UNIVERSITY OF CALIFORNIA, NATIONAL STUDENT LOBBY

Mr. MALINOWSKI. Mr. Chairman, before I start, if I may, I would like to submit something for the record. It is a student loan application that was recently returned to a student at UC-Berkeley, from her bank, with the following explanation. "We regret we are unable to approve your application at this time due to no final decision on Federal balanced budget legislation."

So these things are already affecting the programs that students depend on.

The CHAIRMAN. Without objection, that will be included in committee files.

Mr. MALINOWSKI. I have been a student at UC-Berkeley for 3 years now, and during that time, and especially during the time I have worked for student government, I have met many students who receive Federal financial aid benefits. And I can say with complete assurance that they fit the profile presented to you by Edith Kaneshiro. The vast majority come from low-income families. They work hard during the summer, they work hard during the academic year, and they work hard in school which, at Berkeley, constitutes a full-time job in itself.

They plan to repay society with interest for the investment that was made in them, and little of their great promise would be fulfilled if it were not for the chance to go to college.

Gramm-Rudman-Hollings and the President's budget seek to cut the deficit. But they administer the necessary pain selectively.

Education comprises less than 2 percent of the Federal budget. It will account for 6 percent of the cuts under the Gramm-Rudman sequester and 8 percent of the cuts under the President's budget proposal. The fiscal year 1987 budget, coupled with the linear reductions in the Pell Grant Program, will result in a 28-percent cut in the student financial assistance budget. This will, in turn, result in an average loss to Berkeley students receiving financial aid of $700 per student.

It is estimated by the Department of Education that about 1.7 million students will lose all of their benefits. This means that over 2,000 students at the Berkeley campus alone will lose their benefits.

Now, how are these savings to be achieved? In some of the silliest ways imaginable. A case in point is the proposal to combine the supplemental educational opportunity grants with a work/study program, with an overall funding cut of over 60 percent. It can reasonably be said that work/study is the best financial aid program in existence. It encourages students to work for their benefits. It does not cause indebtedness, and funding is shared by the employer and Government. And yet this valuable program is being cut more than just about anything else.

Supplemental grants go specifically to the neediest of all students and these, too, are facing the largest cuts. This just does not make sense. It does not make good public policy, and I simply cannot go back to campus and explain this to students.

It has been argued that financial aid is taken advantage of by students who do not need it. Yet randomized cuts like these do not differentiate between honest and dishonest recipients; 1.7 million students might lose their Federal aid. But has the Department of Education documented somewhere that these 1.7 million are cheaters? No. They have no idea whether those being asked to sacrifice are deserving or not; not even an idea whether the level of dishonesty is significant or insignificant. Weeding out cheaters in this way is like punishing 10 innocent suspects in order to nab 1 guilty criminal. It is a lazy way to make public policy.

The shattering loss to the needy students at Berkeley could be justified by a commensurate loss to students who are well off. My own case I think is interesting, and I would like the committee to compare it to that of Edith.

I do not receive aid. I come from a fairly well to do family that can afford to fund my education. I am a recipient of the Harry S. Truman Scholarship which alone is enough to fund my entire education. I am also employed by the Associated Students. I can afford to sacrifice. I can afford to pay a little more in taxes. But Gramm-Rudman does not touch me in any way. In order to protect me from higher taxes, even though I can afford them, people like Edith are being asked to sacrifice. That just does not make me feel very good. I am more than willing to pay a few more cents at the gas pump in order to help her out.

I am also willing to see a reasonable increase or a slowdown in defense spending. Defense is crucial. I was born in Poland, so I have a realistic view of the Soviet Union. With regard to that country, I believe that the greatest harm it is capable of doing us is to scare us into abandoning education and into ignoring egalitarianism. These are the things which make us strong. If the Soviets hurt their economy by diverting resources from things like education and domestic programs, why must we emulate their mistake?

I bring up these broader points because I think that when we talk about the budget we talk about more than just dollars and cents. We talk about national priorities. Let us keep education as a priority. Thank you.

The **Chairman**. Thank you very much for that very concise and moving testimony about yourself.

Let us move now to Dr. Werdegar. He is the director of public health, city and county of San Francisco.

I hope I pronounced your name correctly.

Dr. **Werdegar**. Yes; that is it.

The **Chairman**. Thank you very much. We invite you to summarize your testimony. The entire written testimony will go into the record. Please proceed.

STATEMENT OF DR. DAVID WERDEGAR, DIRECTOR OF PUBLIC HEALTH, CITY AND COUNTY OF SAN FRANCISCO

Dr. **Werdegar**. Mr. Chairman, congratulations on these hearings. And thanks to our California Representatives for their work in Congress and, particularly, to Congresswoman Boxer who I have known for a while.

I became the director of public health in San Francisco a year ago when the mayor appointed me to serve. Before that, I was a professor in the medical field. Professors are not noted for their skills in the political process and their knowledge of budgets. But I must say that during the past year, I have received a postgraduate education.

Perhaps the single most important observation I could give, although I will speak specifically about some of the impacts on health care, is the message that health care is a community affair. Illness is often the result of a failure of our system, and good health is a reflection of social support systems, health in the community, adequate housing, education, nutrition, emergency services, and quality of the environment. Consequently, when I speak about the health department's budget and its ability to meet the needs for care of the ill, don't let us forget the fact that health, in its ultimate sense, is a reflection of all the other items that are affected by these major devastating budget cuts—housing, education, nutrition, social services.

You commented, Chairman Gray, that the strength of the family, and the strength of the social support systems are really the basic ingredients of good health.

The department of health in the city and county of San Francisco is its largest department, with a $300 million budget that represents one-sixth of the mayor's budget. About one-third of our budget comes from taxes raised here in the city and county of San Francisco. The other $200 million of our budget comes from reimbursements for patient care, from Medi-Cal, Medicare, and from a variety of Federal block grants. These funds support health services which include nutrition programs; maternal and child health programs; mental health programs; and so forth.

Thus, in addition to the $100 million that the mayor provides our department, $200 million which must come from other sources. Many of these are sources that would be affected by the proposed massive Federal cuts.

Several years ago, the concept of a safety net was introduced. The safety net was to reassure us or to salve our conscience, that Government would provide enough support to protect people from falling through the "net" to personal or family disaster.

The concept of a safety net is not one that is enriching, nor that seeks optimum growth and development. It is a bare minimum approach. Even that safety net is now extremely frayed. The proposed budget cuts are tearing holes in the net; there would not be a safety net any more.

Well, you might ask me what is the evidence, how do you know that the safety net is going or gone. I do not think the homeless problem, which is a concern to every major urban community in the Nation, is a fluke or is an isolated phenomenon. It is a symptom of something deeper and more profound. That we have homeless people who are beyond our means to house, to feed, and to clothe, is a symptom that the safety net has fallen apart.

In urban hospitals and public hospitals throughout every major city, and certainly in our own public hospital, the phenomenon of patient dumping is increasing. That is to say, patients who have no financial support are being sent to the public hospital by other health care institutions. And the public hospitals are swamped. The public hospital is the one facility in which patients without other resources can hope to receive care. Our hospital is full while many other community hospitals in San Francisco are 40 percent occupied or 50 percent occupied. We are providing care to those who have no other support. In the last couple of years the pressure on our system has greatly increased as the need to provide care to those who have no other source of care increases.

Our facilities for care of the mentally ill are seriously crowded, and the community support services, such as residential treatment units are falling apart at the seams from inadequate block grants, community development funds, and other Federal support, which are the primary funding sources of community-based care of the mentally ill. Community-based care in the long run, is the most humane and actually the least expensive care. Compare the cost of treatment in an acute care psychiatric hospital at $500 a day with the care given in a warm and nurturing board and care residential community facility at $500 a month.

Lastly, we see in our public hospitals—here in San Francisco at the General Hospital and at the Laguna Honda Hospital, which is a facility for the care of the elderly—a very significant increase in the severity of illness. We are seeing patients who are, on an average, sicker than ever before. This means that they are getting care much later. The support system, the preventive services, the access to primary care services, those types of services are under such pressure and the access to such care is so diminished, that we now see the patients in the hospital when they are severely ill. That is not humane care, that is not good care, that is not economical care.

We, as citizens, recognize that there are two major budget proposals—the Gramm-Rudman automatic spending cuts that we have all been reading about and then the President's proposal. Each present budgetary cuts of a magnitude that we have never experienced before. We are in the process of analyzing the impacts of Gramm-Rudman. Gramm-Rudman at least divides the cuts between domestic and defense spending and protects some nondiscretionary health programs like Medicare and Medi-Cal, by holding those cuts to a set minimum.

In the President's new budget, there is no sharing of reductions with defense; in fact, defense spending goes up. The proposed budget would cut not only discretionary programs, but nondiscretionary programs as well, such as Medicare, Medi-Cal, veteran services, and a variety of other programs and services.

Chairman Gray listed some of these services. As a director of a health department, let me also give examples of discretionary programs. They include a wide variety of our mental health services; services to the homeless, and maternal and child health services, such as well-baby care to low-income families.

In our city, AIDS, alcoholism, and drug abuse are major problems—problems experienced by all major urban communities. Much of the financial support for combating these problems is Federal. Drug abuse and heroin abuse are associated very dramatically with the AIDS epidemic which increases the need for vigorous programs in these areas—not cutbacks in programs.

The mayor cited the threats to refugee services; these services are very important in San Francisco and an important part of the health care budget. Other services in jeopardy include health education, health education about sexually transmitted diseases, health education about maintaining good health, maternal and child health services, family planning services, nutrition services for pregnant women, child abuse services, and other services to low-income families and individuals with special needs.

The discretionary cuts affect all age groups: children—there may be cuts which affect child abuse services—pregnant women, young adults who are poor or who will become poor when they become ill, adolescents and adults who are drug or alcohol abusers, and the elderly with problems of housing, long-term care, and mental illness.

Let me say a word about AIDS. It is very hard to decipher just how the cuts would affect the AIDS budget. It is alleged that there would be no cuts to the AIDS budget. Our own analysis indicate very substantial cuts in AIDS research and services. While that research which is labeled "AIDS" is said to be held constant in the President's budget, or cut only minimally, one must realize that the research that is labeled "AIDS research" specifically, constitutes only a small fraction of the biomedical research effort which feeds into solving the problem of AIDS. Basic biomedical and molecular biology, examine how viruses behave, and how to develop vaccines against viruses that have a strange composition—which the AIDS virus does. That whole research effort faces a very significant cutback.

At the present AIDS care is supported by social service disability, Medicare, and Medicaid—Medi-Cal in the State of California. However, these sources are inadequate and the city already assumes a major part of the cost of services to AIDS patients. If these funds are reduced, the city would not be able to absorb the additional costs of care for patients with AIDS.

In San Francisco we have built a vast array of social services which provide a support network for AIDS patients. They will be greatly affected by the reduction of block grants and by reductions in funding of the Center for Disease Control [CDC]. Reductions which diminish that support network, which again is not only humane, but also cost effective because it keeps people out of the hospital, in a less expensive and actually more appropriate setting, would be jeopardized by budget cuts.

Our main achievement thus far against AIDS has been successful community education. We still have a lot of work to do. We must reach into the minority communities. We must reach high school students. We must educate individuals in the jails. We have very ambitious plans for further education, which we know is the only way to contain a major epidemic. If funds for education and screening are cut back or rescinded as proposed, our plans and efforts will fail.

I will conclude by supporting the mayor's recommendations. It is a question of value judgments. The question we must ask ourselves as a society and ask ourselves individually, and that I ask in behalf of the health department, "Am I my brother's keeper?" And that pointed and Biblical question of "Am I my brother's keeper?" really is the question we face in responding to these very traumatic and really intolerable budget cuts.

The CHAIRMAN. Thank you, Dr. Werdegar.

At this time, we will move to James Kinney. However, unfortunately, I am going to have to leave in order to catch a plane. Therefore, I am going to have to read the rest of the testimony. So I am very interested in having it, as well as the other testimony of the witnesses. I will read it carefully.

Acting in behalf of the Chair will be Congresswoman Barbara Boxer.

Mr. Kinney, who represents the Mortgage Bankers Association; again, please summarize your testimony.

STATEMENT OF JAMES KINNEY, PRESIDENT, GUILD MORTGAGE CO., ON BEHALF OF MORTGAGE BANKERS ASSOCIATION, SAN DIEGO

Mr. KINNEY. Thank you, Mr. Chairman.

I must say before I start that I feel a special kinship with Ms. Kaneshiro here at my side, not only because of the fact that I share her nervousness of being up here, but because I am third generation Irish and the first in my family to go to school. I could not have gone to school without full Federal funding over the 4 years.

Members of the committee, my name is James Kinney and I am president of Guild Mortgage Co. in San Diego, CA. And I serve on the legislative committee of the Mortgage Bankers Association of America.

MBA is a trade association of the Nation's mortgage banking and real estate finance industries.

We appreciate the opportunity to appear before you today to testify on the fiscal year 1987 budget and the impact that the administration's proposals will have on real estate finance. Our comments will focus on the necessity of establishing sufficiently high credit budget limits for the nonsubsidized, user fee supported Federal Housing Administration [FHA] mortgage insurance and Government National Mortgage Association, commonly known as Ginnie Mae, mortgage-backed security programs, as well as for the Veterans' Administration [VA] entitlement-based Home Loan Guaranty Program. Further, we must voice our strong opposition to new or increased user taxes on the Federal mortgage credit programs of FHA and VA, and the secondary mortgage market programs of Ginnie Mae, Fannie Mae, and Freddie Mac, or the Federal Home Loan Mortgage Corporation.

For fiscal year 1987, the President's budget proposes that the commitment authority for the FHA mortgage insurance program be set at $50.9 billion. This is significantly less than the commitment ceiling set for fiscal year 1986 of $60 billion. Actual activity in fiscal year 1985 totaled nearly $48 billion, and fiscal 1986 activity is running at approximately a $65 billion annual rate. MBA projects that these programs will experience continued strong consumer demand in fiscal 1987 for several reasons.

First and foremost, interest rates are expected to remain at the present affordable levels in the 10½-percent range. This has spurred not only strong home buying demand, but has involved heavy refinancing demand by borrowers with mortgages carrying higher interest rates. Refinance is a healthy phenomenon because it allows borrowers to reduce monthly payments and, thus, reduce the risk of default under those programs.

Second, Fannie Mae and other private mortgage insurers have tightened their underwriting guidelines, which has resulted in more consumer demand for the FHA product. FHA has always served the riskier borrower population, but because it carries a higher mortgage insurance premium, has nonetheless been actuarially sound.

Third, the FHA Adjustable Rate Mortgage Program, known as ARM in the industry, has been highly successful with its proconsumer interest rate caps, and has provoked significant borrower demand.

Finally, uncertainty over the availability of VA loan guaranty program authority, which I will cover in a moment, may result in a movement to FHA loans by frustrated veterans.

Under FHA, at present activity levels for fiscal 1986, an increase to $65 billion may be necessary. For fiscal 1987, MBA urges adoption of an FHA limitation of $65 billion.

The Ginnie Mae Mortgage Backed Security Program provides a means for home buyers, primarily moderate to middle income families and veterans, to obtain competitive direct access to the capital markets via the secondary mortgage market. Because the Ginnie Mae mortgage backed security is a secondary guaranteed program, the restriction in the Ginnie Mae Mortgage Backed Security Program would limit the program authority and the underlying FHA and VA primary loan programs.

In fiscal year 1984, commitments issued in the Ginnie Mae Mortgage Backed Security Program totaled $54.6 billion. We anticipate expanded use of the Ginnie Mae program in future years due to its widespread acceptance in the marketplace and its critical value as a role model in fostering capital market innovations.

The fiscal year 1986 Ginnie Mae commitment authority of $68.25 billion, which is scheduled to be cut by the domestic sequestation percentage to $65.3 billion, is likely to prove inadequate. At current guaranty activity rates, Ginnie Mae could use $80 billion in guaranty authority this year. At the end of January, 4 months into the fiscal year, Ginnie Mae has already issued over $27 billion in guaranties. This will probably require an increase in the fiscal year 1986 Ginnie Mae limits.

Because present FHA activity is estimated in the $65 billion range and VA activity at its present pace could total $18.7 billion, MBA requests a Ginnie Mae mortgage backed security limit of $83.7 billion for fiscal year 1987.

In past years, the VA home loan guaranty program has been treated as an entitlement program and, therefore, not subject to appropriated credit budget ceilings. While Gramm-Rudman continues this status for VA, the program faces a serious and immediate potential of being shut down because if sequestation takes place, all loan guaranty programs, including those not subject to appropriated credit budget ceilings, are subject to across-the-board cuts. Thus, the GAO is given the authority to estimate activity for the VA Home Loan Program and then to apply the sequestation cut.

In the fiscal year 1986 sequestation report, GAO estimated VA activity at nearly $12 billion. The VA Home Loan Program is currently operating at an annual rate of $18.7 billion. On March 1, when the sequestation order is scheduled to take effect, it is likely that the program will already have reached or exceeded the limit, and will shut down immediately. If not, a strict allocation system must be implemented.

Therefore, MBA urges Congress quickly to reinstate commitment authority at a sufficiently high level to accommodate veteran borrowers' demands. MBA suggests that adoption of a ceiling of $18.7 billion will prevent a program shut-down in fiscal year 1986.

In summary, MBA feels obliged to alert this committee and the Congress to the importance of allowing FHA, VA, and Ginnie Mae to fulfill consumer demand for mortgage credit. In the early 1980's, homeownership dreams were stifled by unaffordably high mortgage interest rates. This pent-up demand is now being unleashed. Many of these borrowers are purchasing their first homes because of the opportunities the FHA and VA programs offer. Others, who are moderate and middle income families, rely on the FHA and VA programs to assure a stable, affordable supply of mortgage credit. MBA urges this committee to adopt adequate credit budget limits for the FHA, VA, and Ginnie Mae programs so that the American dream of homeownership does not fade.

In particular, I have some estimates of what impact the adoption of the administration's FHA budget proposals and the effect of Gramm-Rudman on VA would have on California home buyers and within my company. Rather than recite these statistics, I would like to furnish them for the record.

I would like to thank the committee for holding these hearings and giving me the opportunity to express these views. I would like to request the opportunity to file a written statement on these issues in the hearing record.

Mrs. Boxer. That will be granted.

[Testimony resumes on p. 686.]

[The prepared statement of Mr. Kinney follows:]

PREPARED STATEMENT OF JAMES KINNEY

Mr. Chairman and Members of the Committee, my name is James Kinney. I am President of Guild Mortgage Company located in San Diego, California, and I serve on the Legislative Committee of the Mortgage Bankers Association of America. MBA is the trade association of the Nation's mortgage banking and real estate finance industries.

We appreciate the opportunity to appear before you today to testify on the FY 1987 budget and the impact that the Administration's proposals will have on real estate finance. Our comments will focus on the necessity of establishing sufficiently high credit budget limits for the non-subsidized, user-fee supported Federal Housing Administration (FHA) mortgage insurance and Government National Mortgage Association (GNMA) mortgage-backed security (MBS) guaranty programs, as well as for the Veterans Administration (VA) entitlement-based Home Loan Guaranty program. Further, we must voice our strong opposition to new or increased user taxes on the Federal mortgage credit programs of FHA and VA and the secondary mortgage market programs of GNMA, FNMA, and FHLMC.

MBA believes that these proposed fees are a tax on homeowners using the Federal mortgage credit programs. The proposed fees are an indirect effort to undercut the decision of Congress that the Federal government should encourage homeownership by encouraging private capital to be available to prospective homebuyers. If additional taxes are needed, they should be broad-based and not targeted to homeowners. MBA urges that all spending be reviewed, including defense and COLAs, before a tax increase is considered, but we recognize that some broad-based tax increase may be necessary. The proposed special tax, however, should be rejected, because it represents a levy on homeownership.

LIMITATIONS ON CREDIT BUDGET AUTHORITY

Federal Housing Administration

For FY 1987, the President's Budget proposes that commitment authority for the FHA mortgage insurance program be set at $50.9 billion. This is significantly less than the commitment ceiling set for FY 1986 of $60 billion. Actual activity in FY 1985 totalled $47.44 billion and FY 1986 activity is running at approximately a $65 billion annual rate. MBA projects that these programs will experience continued strong consumer demand in FY 1987, for several reasons.

First and foremost, interest rates are expected to remain at the present affordable levels in the 10.5 percent range. This has spurred not only strong homebuying demand, but has involved heavy refinancing demand by borrowers with mortgages carrying higher interest rates. Refinance is a healthy phenomenon, because it allows borrowers to reduce monthly payments and thus reduce the risk of default under these programs. Second, FNMA and private mortgage insurers have tightened their underwriting guidelines, which has resulted in more consumer demand for the FHA product. FHA has always served the riskier borrower population, but because it carries a higher mortgage insurance premium has, nonetheless, been actuarially sound. Third, the FHA Adjustable Rate Mortgage (ARM) program has been highly successful. The FHA-ARM with its consumer protective interest rate caps of no more than 1 percent per year/5 percent over the lifetime of a loan has provoked significant borrower demand. Finally, uncertainty over the availability of VA loan guaranty program authority (which will be covered later) may result in a movement to FHA loans by frustrated veterans.

Under FHA, at present activity levels for FY 1986, an increase to $65 billion may be necessary. For FY 1987, MBA urges adoption of an FHA limitation of $65 billion.

Government National Mortgage Association

The GNMA-MBS program provides a means for homebuyers, primarily moderate- to middle-income families and veterans, to obtain competitive direct access to the capital markets via the secondary mortgage market. Because the GNMA-MBS is a secondary guaranty program, a restriction in the GNMA-MBS program would limit program activity in the underlying FHA and VA primary loan programs.

In FY 1984, commitments issued in the GNMA-MBS program totaled $54.6 billion. We anticipate expanded use of the GNMA-MBS program in future years, due to its widespread acceptance in the marketplace and its critical value as a role model in fostering capital market innovations. Further, the level of purchases of VA and FHA loans by FNMA, relative to its conventional mortgage purchases, has declined in recent years because the yields required by FNMA have been more than yields prevailing in the GNMA market. As a result, the GNMA-MBS has become the most important conduit for tapping private funds for investments in FHA and VA loans.

The FY 1986 GNMA-MBS commitment authority of $68.25 billion, which is scheduled to be cut by the domestic sequestation percentage to $65.31 billion is likely to prove inadequate. At current guaranty activity rates GNMA could use $80 billion in guaranty authority this year. At the end of January, four months into the fiscal year, GNMA has issued $27.3 billion in guaranties. This will probably require an increase in the FY 1986 GNMA limits.

Because present FHA activity is estimated in the $65 billion range and VA activity at its present pace could total $18.7 billion, MBA requests a GNMA-MBS limit of $83.7 billion for FY 1987.

Veterans Administration Home Loan Guaranty Program

In past years the VA home loan guaranty program has been treated as an entitlement program and, therefore, not subject to appropriated credit budget ceilings. While Gramm-Rudman continues this status for VA, the program faces the serious and immediate potential of being shut down, because if sequestation takes place, all loan guaranty programs, including those not subject to appropriated credit budget ceilings, are subject to across-the-board cuts. Thus, the GAO is given the authority to estimate activity for the VA home loan program and then to apply the sequestation cut.

In the FY 1986 sequestation report, GAO estimated VA activity at $11.987 billion and applied the sequestation cut for a $11.471 billion program limit. The VA home loan program is currently operating at an annual rate of $18.7 billion. On March 1, when the sequestation order is scheduled to take effect it is likely that the program will already have reached or exceeded the limit. If not, a strict allocation system must be implemented to ration the remaning commitment authority.

For FY 1987, MBA urges the inclusion of an estimated level of activity of at least $18.7 billion for the VA home loan program.

SUMMARY

In summary, MBA feels obliged to alert this Committee and the Congress to the importance of allowing FHA, VA, and GNMA to fulfill consumer demand for mortgage credit. In the early 1980s, homeownership dreams were stifled by unaffordably high mortgage interest rates. This pent-up demand is now being unleashed. Many of these borrowers are purchasing their first homes because of the opportunities that the FHA and VA programs offer. Others are moderate- and middle-income families who rely on the FHA and VA programs to assure a stable, affordable supply of mortgage credit. MBA urges this Committee to adopt adequate credit budget limits for the FHA, VA, and GNMA programs so that the American dream of homeownership does not fade.

I want to thank the Committee for holding these hearings and giving me the opportunity to express these views. I would like to request the opportunity to file a written statement on these issues in the hearing record.

Mrs. Boxer. Mr. Wheeler.

STATEMENT OF DOUGLAS P. WHEELER, EXECUTIVE DIRECTOR, SIERRA CLUB, SAN FRANCISCO

Mr. Wheeler. Thank you. I am Doug Wheeler, and I have the privilege to serve as the executive director of the Sierra Club, which as you all know is headquartered here in San Francisco. The club has a national membership of 370,000 plus, on whose behalf I am pleased to address some of the environmental quality impacts of this budget.

I have submitted a written statement, and I will attempt to summarize by touching on the principal points, and by calling to your attention—and those of you who are Californians need not be reminded of this—that the quality of our life here in the bay area and throughout the State is very much dependent upon what we have been able to do as partners in protecting the natural heritage of this region. That is a partnership between the Federal Government, the State government, and local government, including the active participation of citizens, which has resulted in a degree of environmental quality unparalleled in the country. It is a partnership that would be very seriously impacted by the budget proposal before you.

There are two important impacts that I think are deserving of emphasis. The first, this budget continues subsidies to those who profit from exploitation of resources on the public lands and in other areas. That is one kind of a budget impact, a kind of subsidy which does not help but certainly does harm our effort of achieving a balanced budget.

The second is the direct reduction in expenditures for programs which contribute to environmental quality, and health and safety too, if you will, because these are interrelated phenomena.

We talk in my statement about two areas of special concern: the budgets of the Environmental Protection Agency, on one hand, and those of the Department of the Interior on the other. These are two departments which, as you know, have principal responsibilities for the Government's efforts to support and enhance environmental quality. They form the backbone of what we call the environmental defense, if you will; that network of programs and legislative authorities which was enacted by the Congress in the 1970's and the 1980's, and which are now very much under assault as the reduction of these budgets continues and as the philosophy of this administration persists.

The Environmental Protection Agency is today working at a level equivalent, in terms of its purchasing power, to 1976. That is not enough. This administration has proposed further reduction in the kinds of programs for clean air and clean water that the Congress mandated 10 and 15 years ago, programs which need to be increased, not reduced, if we are to keep pace with environmental degradation.

Equally important, there is no provision in this budget for EPA or any Federal agency to address emerging environmental concerns, such as ground water contamination, the effects of acid rain, and the toxic hot spots which are particularly acute here in California. These are new programs or these are areas which require new attention; they are areas which receive no attention from the President's budget.

So we have a diminution of effort on the part of EPA and we have a failure to address new environmental problems which are legitimately the responsibility of that agency.

The impacts of the Department of the Interior are equally severe. And I think they can be illustrated by the President's proposal for the land and water conservation fund. This is a program which has made possible the acquisition of the Golden Gate National Recreation Area, the establishment of the Point Reyes National Seashore, and the protection of open space and wildlife habitat across the United States. These are funds available to the Federal Government for that purpose, for use by the Park Service and the Fish and Wildlife Service and the Forest Service. It is also a program which makes such funds available to State and local government. That program is authorized by the Congress to be funded at the level of $900 million in fiscal year 1987. The President proposes that it be funded at the level of $18 million; that against the record of this administration on average over the last 5 years of $250 million. This is an investment in the future well-being of this Nation and its people, and an investment that had it not been made at the Golden Gate National Recreation Area or Point Reyes National Seashore, would never again present itself. It is an investment which, if deferred today, will not be available to us in years to come.

At the same time that we cut expenditures, direct expenditures for programs like these at EPA and Interior, and we raise fees or propose to raise fees for public use of national parks and other recreational facilities, to the extent of $50 million in fiscal year 1987, we propose no increase in fees for private use of public resources on the public lands, those one-third of the country's lands administered by the Bureau of Land Management for multiple use. No increase in fees for use of timber; no increase for energy development; no increase for minerals extraction—on the public lands which belong to all of us and in which we have right to expect a reasonable return on our investment. On the other hand, of course, we will be paying higher fees for the use of the recreation resources that are ours and administered for us by the Park Service.

We recognize that to address these problems and to deal adequately with that environmental defense, the environmental safety net, if you will, will require imagination, creativity, and constructive solutions. And we are proposing not only that budgets be cut in some areas that are detailed in my statement, those areas where the public is not receiving adequate return on its investment; we are also prepared to discuss with the committee and with our colleagues in other environmental organizations the prospects for enhanced revenue, largely in two areas: increase taxes on emissions of pollutants which continue to degrade environmental quality; and a tax of the kind described by Mayor Feinstein earlier on the consumption of nonrenewable energy resources.

I would like to close by inviting your attention to my written statement, which makes two specific points that I think are germane in terms of your concern with quality of life.

The first is that there is extraordinary public support for effort in this area. And it is not narrow or shallow support, it is deep support. A New York Times-CBS poll of a couple of weeks ago reflects that during the period of the Reagan administration, public support for environmental quality, no matter what the cost, has increased from 41 percent who favor environmental quality, no matter what the cost, to 66 percent. This suggests to us that the President has misread the temper of the times, and the willingness of citizens to pay appropriately for the quality of their environment.

And the second point I would like to make about environmental quality as a function of budget process, is that this is an area which is undeniably the responsibility of the Federal Government. Acid rain is but one example of the failure to address a problem which, if left unchecked, will contribute not only to degradation of environmental quality, but to deterioration of our economic resources. States have begun to address this problem, but States alone cannot address these global problems of clean air and clean water. The Federal Government must respond. Unfortunately, this budget does dot permit an adequate response.

[The prepared statement of Mr. Wheeler follows:]

Prepared Statement of Douglas P. Wheeler

Mr. Chairman, and members of the Committee, I am Douglas P. Wheeler, Executive Director of the Sierra Club. On behalf of our 370,000 members, I thank you for the opportunity to appear before you to today to discuss the impact of President Reagan's proposed Fiscal Year 1987 budget on environmental protection and natural resources.

OVERVIEW: PROPOSED FISCAL YEAR 1987 BUDGET ASSAULTS THE ENVIRONMENT

"We will use the budget system to be the excuse to make major policy decisions."—James Watt, Secretary of the Interior, May 1981.

Although James Watt is gone, his legacy of using budget cuts to eviscerate environmental protection and reward special interests lives on. Environmental programs are only a microscopic part of federal spending, yet the budget deficit has been used as an excuse to cut environmental programs to the bone. These cutbacks are voiding the environmental protection contract that Congress made with the American people in the 1970's. President Reagan's proposed budget for fiscal year 1987—combined with previous cuts and inflation—pose an assault on the environment which we are convinced is wholly unacceptable to the American people:

This Budget would continue subsidies to those who reap profits by stripping our publicly-owned lands of their resources. This budget benefits private interests at the public's expense. In lieu of this budget, the Sierra Club strongly urges this Committee to pass a budget which fulfills our obligation to protect our natural heritage and be good stewards of our natural resources for future generations. This can be done in a budget which also raises revenues by ending anti-environment handouts to special interests.

OUR PRECIOUS NATIONAL HERITAGE

Americans have been blessed with bountiful woods, majestic mountains, sparkling waters, and fresh air. These precious public resources are an essential part of our national heritage which we should bequeath to our children and grandchildren. If properly managed, they can sustain recreation and industry for the future as well as for us. If unpolluted, they can provide the clean air, water, and soil necessary for human survival. As our nation has grown, we've learned to appreciate the importance of a safe and healthy environment, and of protecting what little remains of our undenigrated wilderness.

In the 1970's, Congress made a commitment to the American people to preserve our natural heritage by providing for our "environmental defense." Congress enacted critical legislation including the Clean Air and Water Acts, the Superfund, and the Alaska Lands Act. Unfortunately, this commitment has been abandoned in this decade. Since 1981, our natural resources have suffered from mismanagement, neglect, and—at times—open hostility from those sworn to protect them. Worst of all, funding to clean up and protect our resources has steadily declined. For instance, cuts in the Environmental Protection Agency budget have reduced its purchasing power to the 1976 level, even though it has five new pollution laws to enforce. At the same time, acquisition of threatened park, wilderness and wildlife habitat areas has come to a near standstill. Overall, budget cuts in environmental programs threaten the quality of life for this and future generations by shredding the programs which defend our environment from assault.

ENVIRONMENTAL PROTECTION: PROMISES MADE, PROMISES BROKEN

One of the most important functions of the federal government is to ensure that its citizens can breath fresh air and drink pure water. Cleaning up our muddy, polluted waters, unhealthy air, and poisoned earth is essential to protecting our health. In the 1970's, Congress took historic steps to combat the pollution that was poisoning our air, water, and earth by enacting seven critical environmental protection laws. Yet, that promise of protection made during the last decade has been forgotten in this decade as a combination of budget cuts and inflation have bled these critical public health programs to death. Starved for funding, the implementation and enforcement of our "national public health defense" programs has proceeded at a snail's pace.

Current funding for the Environmental Protection Agency's programs (excluding Superfund and sewer construction grants) is nearly 20 percent lower in actual dollars purchasing power than in 1981. President Reagan's proposed fiscal year 1987 EPA Budget would continue to hack at our environmental protection programs—already cut to the bone—by AGAIN reducing its operating budget, and slashing one-fourth of the funds to build sewage treatment plants essential to keep human wastes and toxics out of our rivers and lakes.

Administration officials claim that the proposed budget "provides a stable and sound resource base" for environmental programs. This is the politics of lower expectations. The proposed budget continues to starve an agency that faces an ever-growing task of protecting the public from toxic contamination. The President's budget would pay for the long overdue cleanup of hazardous waste dumps by taking money AWAY from air and water quality programs, which are already underfunded and understaffed.

For instance, enforcement of the Clean Water Act's pollution controls is already woefully inadequate. A General Accounting Office survey found that 82 percent of the major wastewater dischargers were violating clean water standards. Yet, the fiscal year 1987 budget would cut Clean Water Act enforcement by another 17 percent. EPA officials testified in 1985 that "it would take $203 million in additional appropriations to make up for lagging permitting and enforcement in the water program." Law-abiding firms have little incentive to comply with pollution laws if they know their competitors are violating pollution laws with impunity. And voluntary compliance is the backbone of our protection from industrial toxics.

Since the dramatic leaks of poisonous gases at Bhopal, India, and Institute, West Virginia, there has been justifiable public concern about toxic air pollutants. EPA has set standards for only some sources of just six hazardous pollutants, while at least 85 more need to be regulated. Yet, the proposed 1987 budget would actually CUT funding to regulate cancer-causing air pollutants by 13 percent. These are programs which regulate such poisons as dioxin, phosgene (mustard gas), and methal isocynate (MIC), which killed 2,000 people in Bhopal.

EPA has identified over $100 BILLION in unmet sewage treatment needs—essential for clean water—yet the budget proposes to slash funding to build sewage treatment plants by 25 percent. Cleaning up "toxic hot spots"—such as the Delaware River near Philadelphia—is also left to the states. The Administration reasons that states can pick up the tab for environmental protection. Unfortunately, many states are already financially strapped, yet the proposed budget would thrust another load of responsibilities to them.

Bad as these impacts are, the biggest threat to public safety posed by the Administration's fiscal year 1987 budget is in the urgently needed programs it does not fund at all. This nation faces potential environmental disasters such as groundwater contamination, acid rain, and toxic hot spots that are simply not being addressed by this administration. Postponing efforts to halt these pollution problems ensures that they—and the price tag for solving them—will continue to grow. Fighting the fiscal deficit now by slashing environmental protection only builds a potentially catastrophic public health deficit for the future.

Mr. Chairman, we should not be fooled about who this shortsighted budget hurts. Ordinary middle class people and the urban poor are the ones who will be forced to pay the price for shrunken safeguards from industrial wastes. Working families in places like Love Canal, New York, and Times Beach, Missouri, have paid the deadly price of inadequate defense from toxics. The Reagan budget promises only more of the same.

The American people should not have to pick up the bill for polluting industries. We strongly urge the committee to fulfill the promise of environmental protection Congress made in the 1970's by providing adequate funding to make that promise a reality in the 1980's.

INTERIOR AND RELATED AGENCIES: ONE-THIRD OF OUR LAND

Since the beginnings of our Republic, the nation has treasured its publicly held land, our most enduring resource, source of much of our wealth, our beauty, our legacy. Publicly held land, purchased—or fought for—by all Americans is our ultimate gift for the future. Most treasured of all are our spectacular national parks, our wilderness areas and wildlife refuges, and our undeveloped forests and deserts.

Despite the vast size of our public land estate, its wealth and its management complexities, our land managing agencies make up only a tiny fraction of the federal budget. Yet that small fraction is under disproportionate pressure in the overall financial squeeze. Many of the specific proposals in the President's budget are shortsighted and environmentally harmful in ways many magnitudes greater than the dollars involved. We must combine sound fiscal policy with forward looking, conservative environmental protection policies which will benefit not only the nation now, but the nation which our children will inherit.

1. Land and Water Conservation Fund

Our public lands are not luxury goods. They are capital assets. In recognition of that fact, the Congress very wisely established a *trust fund* for the acquisition of public lands—the Land and Water Conservation Fund (established in 1965, authorized until 1989). LWCF revenues are obtained from the sale of nonrenewable resources such as offshore oil and surplus federal lands. At present, there is a backlog reserve of $4.493 billion within the LWCF—authorized but never spent for the purposes for which the fund was established; most of these funds have reverted to the general treasury.

The theory of this trust fund was that the proceeds from selling our public assets should be recaptured for the long-term public benefit through capital investment—in the acquisition of urgently needed park, wilderness and wildlife refuge land for lasting public benefit.

It does not benefit the nation to sell off its non-renewable resources if the money is not used for acquisition of other public assets. And yet, this Administration repeatedly attempts to squander our assets in this way. It is like selling the family home to pay off credit card bills. It is also foolish to delay buying private lands for our parks and wilderness areas because these lands may be altered or destroyed before we can purchase them for public purposes, depriving our nation forever of their benefits. Even if the land is available in the future, it will undoubtedly be more expensive. This is foolish fiscal and environmental management.

The LWCF should receive a full appropriation of $900 million instead of the $250 million average which has been appropriated over the past 5 years—or the paltry $18 million proposed in the President's budget. The administration policy and budget would squander the nation's wealth by selling off our natural resources without reinvesting the funds in other capital assets. This is the single greatest public land need for America and the single greatest public land deficiency in the proposed budget.

2. Land Managing Agencies

Over the past five years, all of the so-called "multiple use" programs in the Forest Service and Bureau of Land Management, even the Fish and Wildlife Service, have been substantially—perhaps permanently—distorted by repeated shifts in funding. Spending priorities for the land management agencies are disproportionately tilted toward resource development.

For example, the Forest Service's proposed fiscal year 1987 budget would cut timber administration funds by only 1.5 percent, forest road construction for logging by only 0.9 percent, and minerals and energy exploration funding by less than 3 percent. The budget actually proposes to INCREASE funding for grazing and range management. By contrast, the big cuts within the proposed Forest Service budget are made in land acquisition, grants to states and localities, state and private forestry, and forest fire protection.

Incredibly, the President's budget proposes raising millions of dollars in fees for recreational use but no increase at all in fees for timber, grazing, energy, and mineral exploitation. It would raise $50 million by imposing recreational fees on the public while cutting the recreation budget, which will involve "closing some recreation sites and operating others on a shorter season." If Congress refuses to hike fees, then the recreation budget would be cut by 50 percent. This is a budget so intent on building new roads to open undeveloped areas for logging, that it had to cut funds for maintenance of roads, closing 102,000 miles of roads which had already been constructed and open to the public.

When roadbuilding and commodity production are fully funded while fish, wildlife, recreation, and soil and water programs are cut, the balance of specialized personnel within the agencies is distorted, too, biasing the professionals of the agency—and changing the land itself. Roads are funded, so they are constructed—opening the way for timber sales, energy leases, grazing facilities. But recreation facilities, wildlife habitat protection, and trails are neglected, and the land itself is altered. In effect, budget cuts have ended so-called multiple use management.

BUDGET CUTS WE ARE HAPPY TO RECOMMEND

The visitor to national parks, the hiker in a wilderness, the birdwatcher visiting a wildlife refuge, is not a profit-making corporation operating through government subsidy. Neither, are these visitors to our publicly-owned land extracting resources—renewable or nonrenewable to make that profit. Not so for the nation's federal timber operators, public land grazers, hard rock miners, and energy companies. In the absence of adequate revenues through special fees, here are suggested cuts that can be made from public funds currently going to subsidize environmentally shortsighted and environmentally harmful land programs.

1. National Forest Road-building

For five years, the Forest Service roads built through direct appropriation have been funded at or above the President's budget and constructed at a rate *exceeding* the Forest Service's own goals—despite a slump in timber markets in the 1980's and cuts in other programs. Savings of $67 million could be achieved in 1987 by placing a one year moratorium on new forest road construction—without impacting overall timber harvest goals.

2. Tongass Timber Fund

A special fund established by the Alaska Lands Act provides at least $40 million per year from receipts (royalties) on natural resources to the Forest Service to maintain the timber sales program in the Tongass National Forest at a constant, nonmarket, heavily subsidized level—with grave destruction of environmental values. In 1987 this fund would provide $45 million despite the fact timber companies do not consume the mandatory timber cut requirements. Road building activities there have already provided access for timber which has not been sold. This program is wasteful, environmentally destructive, and should be returned to the appropriations process and reduced.

3. Timber Sales Below Cost

Many federal timber sales do not return their preparation costs. According to the President's budget document, "Forest Service costs for timber and mineral activities exceeded the federal share of receipts by $621 million in 1985, and some timber sales did not cover costs." These sales are environmentally destructive because of road building, which is also their largest expense. In new forest plans the agency actually seeks to increase timber sale offerings and build thousands of miles of new logging roads. Congress should restrict spending on forests which habitually run a deficit on their timber operations.

CONGRESS CAN REDUCE DEFICIT BY ENDING DESTRUCTIVE SUBSIDIES

The Gramm-Rudman-Hollings Deficit Reduction Act mandates that Congress reduce the federal deficit to $144 billion in fiscal year 1987. Drastic cuts in already starved environmental programs will only reduce the deficit by a miniscule amount, while causing permanent harm to public health and natural resources. Instead, the Committee could meet the fiscal year 1987 deficit target by ending subsidies for resource exploitation and pork barrel projects that benefit private interests, such as those I have outlined here. Tax loopholes that encourage or reward environmental degradation should also be eliminated. The Committee should also oppose taxes which would encourage rapid resource depletion.

1. Grazing Subsidies

Both the Bureau of Land Management and the Forest Service subsidize grazing on the federal lands, although production from these lands make up only 2 percent of America's production. It costs a rancher only $1.33 to graze a cow for one month on federal land, one-quarter as much as it costs private ranchers. Public grazers have never paid fair market value. In the absence of fair market grazing fees, Congress should cut back on funds expended for grazing permits. This subsidy encourages overgrazing, which has denuded the land and degraded riparian habitat, resulting in fewer fish and wildlife. We lose $75 million annually in foregone revenues from our grazing giveaway.

2. Energy Leasing Subsidies

The oil and gas leasing system also sells publicly-owned nonrenewable resources for less than their true value. Currently, 95 percent of oil and gas tracts on public l[illegible]re leased through the noncompetitive lottery system, which is rife with abuse and inconsistencies. Several hundred million dollars of revenue could be raised each year if the lottery system were replaced by a competitive bidding system.

3. Water Project Subsidies

Although the federal budget deficit was nearly $200 billion in fiscal year 1985, Congress continues to pass multi-billion dollar bills to build large, environmentally destructive water projects. Citizens pay for these projects with their hard-earned tax dollars, and lose countless acres of wetlands and forests, while the barge industry reaps millions in cheap transportation fees. Private interests who benefit from federally subsidized navigation, ports, or irrigation water should pay user fees to recoup at least a portion of their market value cost.

4. Tax Subsidies

The tax code also includes billions of dollars of hidden subsidies which reward resources exploitation. The deduction for interest from second home mortgages subsidizes and encourages the development of fragile areas like the Outer Banks of North Carolina and Lake Tahoe in California. Congress decided to tax timber at the lower capital gains rate because the forest products industry claimed they would invest more in reforestation and other conservation measures. However, the capital gains tax benefit is three times larger than the estimated forest costs, and does not promote conservation goals.

Similarly, the land clearing deduction and capital gains treatment has encouraged developers to "farm the tax code" by converting highly erodible rangeland and wetlands to cropland, and then selling it for a tidy tax deduction profit. Perhaps the large tax subsidies are for nonrenewable energy development. Accelerated depreciation and investment tax credits encourage construction of unneeded central station powerplants. Depletion allowances and intangible drilling deductions offer artificial incentives for extracting finite fossil fuel resources.

Taken together, these provisions add billions to the federal deficit annually through tax writeoffs, and encourage more construction, drilling, and mining in fragile wild areas, barrier areas, barrier islands, rangelands, and coastlines. Congress should completely eliminate opportunities to mine, harvest, farm or drill the tax code before it deprives our emaciated environmental programs of one more cent.

NEW TAXES

Looking ahead at the deficit reduction targets established in Gramm-Rudman-Hollings last year, the Sierra Club is convinced that the federal government will need additional revenue to maintain quality of life programs and to balance the budget. We believe that very substantial revenue increases can be achieved in ways which contribute directly to the quality of life, from taxes which are—if any can be—"good taxes."

The two obvious areas for such tax increases are on emissions of pollutants into the environment and on the consumption of non-renewable energy resources. A variety of proposals have been advanced in this area. The Sierra Club and other environmental groups are currently reviewing these proposals to develop a package that will generate additional revenues with the greatest possible increase in overall public welfare. We will be releasing these proposals in the next month.

SUMMARY

As the Reagan Adminstration's assault on environmental programs wears on, public support for fulfilling the promise of environmental defense made in the 1970's grows. A New York Times/CBS News Poll in January 1986 found that 66 percent of the 1,500 people surveyed "Believe environmental improvements (are) necessary regardless of cost," up from 45 percent in 1981. There is even strong public support for stringent environmental protection in communities where the local economy is directly dependent on heavily polluting industries. A survey in West Virginia's "chemical valley" found that 48 percent of the respondents supported a clean environment even if it threatens local jobs, while only 31 percent favored a prosperous economy.

These, and countless other opinion polls reflect what we already know: that the quality of life in the United States depends on more than just the bare necessities of survival. Quality of life depends as well on fresh air to breath, safe water to drink, unspoiled wilderness to hike, and free flowing rivers to paddle. If we deprive ourselves of a healthy environment, our lives could be reduced to a dreary, dismal existence. Dramatic reductions in environmental protection programs since 1981 would hasten the day we are faced with this sort of world. President Reagan's proposed fiscal year 1987 budget is another inexorable step toward irreversible environmental degredation. The Sierra Club strongly urges the House Committee on Budget to pass a budget which meets deficit reduction targets by ending subsidies to and taxing private interests who despoil our resources, rather than slashing the environmental safety net which protects our priceless natural heritage and the public health.

Mrs. **Boxer**. Thank you very much, Mr. Wheeler, for your excellent testimony. Mr. Latham.

STATEMENT OF WILLIAM K. LATHAM, ASSISTANT GENERAL MANAGER FOR CONSUMER SERVICES, SACRAMENTO MUNICIPAL UTILITY DISTRICT

Mr. LATHAM. Thank you, Madam Chairman, members of the committee. My name is William Latham. I am the assistant general manager for consumer services with the Sacramento Municipal Utility District. I appreciate this opportunity to appear before you today to testify on the administration's proposal to privatize the Federal Power Marketing Administrations.

SMUD is a member of the American Public Power Association. I have been assisted in the preparation of my testimony by the association, but I am not here speaking on its behalf. I ask that my written statement be included in the record.

SMUD is the second largest consumer-owned utility in California and the fourth largest in the Nation. We are the largest individual wholesale purchaser of power. SMUD purchases power from the Western Area Power Administration, commonly known as WAPA, at cost-based rates. The administration's proposal to sell off WAPA, would have a direct and substantial adverse impact on our 370,000 residential, commercial, and industrial customers.

First, SMUD could lose access to all or part of the 360 megawatts of power for which we have contracted with WAPA. This would seriously disrupt our ability to serve our customer and could require a substantial rate increase to pay for the purchase of replacement power and the construction of new generation resources. For example, we currently pay about $6 million a month for the power we purchase from WAPA. It would currently cost approximately $14 million a month to purchase an equivalent amount of replacement power.

Second, even if SMUD were able to continue purchasing the power, the electric bills of our ratepayers would likely increase substantially. A private buyer would not only pass along the enormous costs of refinancing the project at today's higher interest rates, but it would also seek to maximize its profits by charging higher rates.

Third, the substantial increase in SMUD's rates, resulting in the loss of Federal cost-based power, would have a serious impact on the employment and tax base in our service area.

Finally, if WAPA were sold to one of the large utilities in California, it would further concentrate the ownership of power facilities in the State. This would place a serious restriction on the ability of many smaller consumer-owned utilities to provide low cost and reliable service to their customers. Likewise, the proposed selloff of the PMA's would have a substantial adverse impact on a nationwide basis. In addition to affecting millions of residential customers, a rate increase resulting from the sales of the power marketing agencies would impair economic stability in a number of regions.

In the 34 States where Federal power is marketed, a total of 275,000 manufacturing, wholesale, retail, and service companies are serviced by public power systems which rely on Federal power purchases for all or a portion of their power.

Madam Chairwoman, the sale of Western and the other power marketing administrations is contrary to the public interest and simply makes no economic sense. Unlike other Federal service programs, the PMA's produce revenues for the Government, thereby helping to reduce the Federal deficit. Revenue generated from the sale of Federal power not only cover the operations and maintenance costs, any power that the Federal marketing agencies must purchase transmission and construction costs, they also go toward the repayment of principal and interest.

Of the total Federal investment in Western of $4.1 billion, $1.76 billion has already been repaid, or more than 42 percent of the total investment. Of the total Federal investment nationwide, $15.5 billion, the power marketing agencies have repaid $3 billion. In 1985 alone, the PMA's together reduced their repayable investment by $527 million and made a $561 million interest payment to the Treasury.

While the sale of the PMA's would produce a one-time bonus payment for the Treasury, it is not a responsible or a legitimate means of reducing the Federal deficit. Sale of these valuable assets would not reduce Federal expenditures or produce any long-term savings. Instead, the sale would remove from Federal ownership revenue from these resources which could be used to help toward reducing deficits.

In sum, Sacramento Municipal Utility District believes that the administration's proposal to sell of the PMA's is shortsighted. Privatization of these Federal power facilities could deprive SMUD of essential power resources and further increase drastically the rates our customers would have to pay for electricity. This would also be true for millions of other ratepayers throughout the country.

The administration should not be allowed to proceed with its plans to seek purchasers for the PMA's unless the proposals to privatize them are fully considered and debated by Congress and by the American people. We are confident that when all of the facts are compiled and disclosed, it will be abundantly clear that this proposal, which would have a devastating effect on millions of electricity consumers throughout the country, would have little immediate effect on the budget and would, in fact, exacerbate future budgetary problems. Thank you.

[Testimony resumes on p. 707.]

[The prepared statement of Mr. Latham follows:]

PREPARED STATEMENT OF WILLIAM K. LATHAM

Mr. Chairman and Members of the Committee, my name is William K. Latham. I am the Assistant General Manager for Consumer Services of the Sacramento Municipal Utility District ("SMUD"). I appreciate the opportunity to appear before you today to testify on the Administration's proposal to "privatize" the Federal power marketing administrations ("PMAs"). The proposed budget for fiscal year 1987 contemplates the sale of the Bonneville Power Administration and the Western Area, Southeastern, Southwestern and Alaska power marketing administrations.

SMUD is the second largest consumer-owned utility in the State of California and the fourth largest in the nation in terms of the number of customers served. We have approximately 370,000 customers in the Sacramento area. Our generating capacity of over 1,600 megawatts includes nuclear, hydroelectric, geothermal and solar resources.

SMUD is the Western Area Power Administration's ("WAPAs") largest individual wholesale purchaser of power. We purchase up to 360 megawatts of power annually under a contract which expires on December 31, 2014. WAPA sells power from 51 powerplants with a total generating capacity of 9,000 megawatts. It has a 16,000 mile transmission system which it utilizes to deliver power to 562 public power systems and rural electric cooperatives in 15 states. In California, SMUD is one of 54 customers which currently purchase WAPA power.

WAPA sells power at cost-based rates. In other words, its rates are set at a level sufficient to enable it to repay all of its costs -- operation and maintenance, power purchase, transmission, and construction -- and to pay principal and interest on its outstanding debt. Thus WAPA, like all of the PMAs, not only pays its own way, it makes money for the Federal government.

Impact on SMUD

The Administration's proposed sell-off of WAPA's generating resources would have a direct and substantial adverse affect on SMUD's ratepayers.

First, SMUD could lose access to all or part of the 360 MW of power for which it has contracted with WAPA, particularly if the sale removes the "first-right" of public utilities to purchase the power. This would seriously disrupt both SMUD's short-term and long-term resource planning and impair our ability to meet our customers' energy needs reliably and efficiently. Moreover, our customers would be forced to pay substantially increased rates if we were required to replace the lost power by purchasing replacement power at market rates or building new generating facilities.

For example, we now pay $6 million per month for the power we purchase from WAPA. It would currently cost $14 million per month to purchase an equivalent amount of replacement power. Under these circumstances, our customers could be faced with a rate increase of up to 27 percent.

Second, even if SMUD were able to continue to purchase all or part of the power for which it contracted, our ratepayers would likely be subject to a substantial rate increase, if not now, then certainly after our contract expires in 2014. A private buyer purchasing WAPA would have to borrow billions of dollars at today's interest rates, which are substantially higher than the rates in effect when the power facilities were built. The additional cost, as the result of refinancing, would be passed on to our customers. Moreover, if WAPA were sold to a private buyer, the new owner would certainly seek to maximize its profits by charging market rates.

Third, sale of WAPA's generating resources could impair economic productivity and stability in the Sacramento area. SMUD currently provides electric power to over 35,000 commercial and industrial customers. These customers employ approximately 105,000 people. A substantial increase in

SMUD's rates, resulting from the loss of WAPA cost-based power, could have a serious impact on the employment and tax base in our service area.

Fourth, if WAPA were sold to one of the utilities in California, a not unlikely possibility, it would further concentrate the ownership of the power facilities in the state. Without access to these facilities, it would be more difficult for the consumer-owned utilities in California to provide low cost and reliable service to their customers. Moreover, restricting access to the power facilities now owned by WAPA would seriously reduce the ability of public power systems to compete, thereby harming all California electricity consumers.

Nationwide Impact

The proposed sell-off of the PMAs would also have a substantial adverse impact on a nationwide basis. The map attached to this statement shows the regions served by the five PMAs which would be "privatized" under the Administration's proposal. These PMAs sell the output from 127 power plants with a generating capacity of 33,431 megawatts. They own 31,500 miles of transmission lines.

The five PMAs which would be sold currently sell electricity to 500 local public power systems; 600 rural electric cooperatives; 135 units of local, state and federal government; and 60 private companies. In addition to affecting millions of residential customers, the rate increases resulting from sales of the PMAs could impair economic stability in a number of regions. In the 34 states where federal power is marketed, a total of 275,000 manufacturing, wholesale, retail and service companies are served by public power systems and rural electric cooperatives which rely on federal power purchases for all or a portion of their supply of bulk power. These companies employ more than 3,000,000 people and contribute nearly $240 billion to the national economy. Boosting rates would undercut this contribution to jobs, income and tax base.

The sell-off of the PMAs would have numerous adverse impacts beyond those directly affecting ratepayers. These federal facilities serve many public purposes in addition to the production of power. These include flood control, navigation, recreation, irrigation, fish and wildlife protection and salinity control. Even if private owners had the resources to continue these activities, there is no guarantee or reason to believe they would chose to pursue these ends to the same degree as a public agency.

Privatization Makes No Sense

Under these circumstances, the sale of WAPA and the other power marketing administrations is not in the public interest. Moreover, the sale of these valuable federal facilities simply does not make any economic sense.

Federal rates are not subsidized. Unlike most federal service programs, the PMAs produce revenue for the government, thereby helping to reduce the federal deficit. They do not, contrary to the Administration's assertion, sell power at subsidized rates. Rather, as the Department of Energy states in its budget highlights,

> "Revenues from selling power and transmission services of the five PMAs offset annual operations and maintenance costs, repay the capital investment with interest and assist capital repayment on irrigation features of certain projects."

Of the total federal investment in WAPA of $4.1 billion, $1.76 billion has already been repaid -- or more than 42 percent. For fiscal year 1987 the Administration has requested for WAPA an appropriation of $283.8 million. WAPA currently estimates (based on an average water year) that its revenues for the same fiscal year will be approximately $589 million. Under these circumstances, WAPA will cover its total costs and be able to pay more than $300 million in principal and interest to the Treasury.

Of the total federal investment nationwide of $15.5 billion, the PMAs have repaid $3 billion. In 1985 alone, the PMAs together reduced their repayable investment by $527 million and made a $561 million interest payment to the Treasury.

Federal hydropower rates are less than rates for electricity generated from other sources. Nevertheless, by paying rates that, in addition to covering costs of operation and maintenance, allow the PMAs to systematically retire the debt on powerplant construction and make substantial interest payments to the Treasury, federal power users already help reduce the budget deficit. Federal power not only pays its own way, it also produces revenues that finance other important government functions, such as irrigation, salinity control and water augmentation.

Sale of the PMAs would have little budget impact. While sale of the PMAs would produce a one-time "bonus payment" for the Treasury, it is not a responsible or legitimate means of reducing the federal deficit. Sale of these valuable assets would not reduce federal expenditures or produce any long-term savings. Instead, the sale would remove from federal ownership revenue-producing resources which could be used to help reduce future deficits.

Clearly, sale of federal power facilities at the "fire-sale" price proposed by the Administration would not have even a substantial short-term impact on the budget deficit. The Administration is proposing to sell the five PMAs for $12.7 billion. It projects an initial budget savings of $1.6 billion in 1988 and an average of only $2.54 billion annually over the next five years.

The $2.7 billion price tag for WAPA's 9,000 megawatts of generating capacity and 16,000 miles of transmission lines pales when compared to the $25 billion which the Grace Commission estimated it would cost to replace WAPA alone. Under the Administration's proposal, the entity buying WAPA would pay only $265 per kilowatt, while it could cost up to $1,500 per kilowatt to build a generating facility to replace this power. There is no rational economic or deficit reduction basis for the proposed sale, particularly at these "bargain basement" prices.

Numerous Unresolved Issues

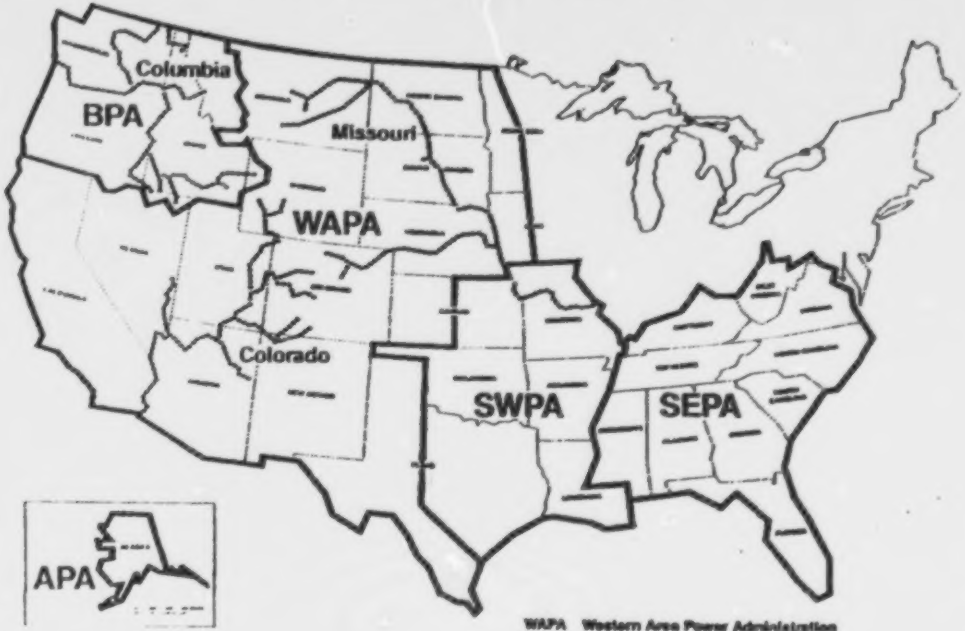
Finally, we have substantial concerns and questions about whether the proposed sale could be administered without creating a procedural and legal nightmare. Who would be permitted to bid for these federal facilities? What selection criteria would be used? Would the purchaser be required to assume the PMA's regional coordination, power supply, wheeling and environmental obligations? Would the public utilities first-right to purchase federal hydropower, which is critical to the continued viability of public power systems, be retained? These are all important questions which have not been addressed by the Administration.

Sale of the PMAs would raise a host of other problems. The PMAs have entered into thousands of contracts with their customers, including power sale agreements, firm peaking power arrangements, group pooling arrangements, joint-use transmission systems and methods of computing average transmission cost. WAPA has 67 valid contracts with Basin Electric Cooperative alone. Sale of these federal power facilities would require reformation of these contracts, as well as existing statutes, ratemaking procedures, and operational arrangements, and would raise legal issues about the impairment of existing contractual obligations.

In sum, SMUD strongly opposes the Administration's short-sighted proposal to sell off the federal power marketing administrations. "Privatization" of these federal power facilities could deprive SMUD's customers of essential power resources and would increase drastically the rates SMUD's customers pay for electricity. The same would be true for millions of other ratepayers throughout the country. The sale of these valuable revenue-producing assets would not reduce federal expenditures and is not based on sound business judgment, which would seek to preserve these assets and ensure future income. We believe it would be fiscally irresponsible to sell the PMAs at "fire sale" rates when these agencies continue to provide important services and benefit the nation.

The Administration should not be allowed to proceed with its plans to seek purchasers for the PMAs until its proposal to privatize the PMAs is fully considered and debated by the Congress and the American people. We are confident that, when all the facts are compiled and disclosed, it will be abundantly clear that this proposal, which would have a devastating affect on millions of electricity consumers throughout the country, would have little immediate effect on the budget and would, in fact, exacerbate future budgetary problems.

Power Marketing Administrations


Columbia
BPA
Missouri
WAPA
Colorado
SWPA
SEPA
APA

WAPA	Western Area Power Administration
APA	Alaska Power Administration
BPA	Bonneville Power Administration
SEPA	Southeastern Power Administration
SWPA	Southwestern Power Administration

Mrs. **Boxer**. Thank you, Mr. Latham. Mr. Miller.

Mr. **Miller**. Thank you, Madam Chair. I would like to compliment all the members of the panel for their testimony and their contribution to this hearing.

Dr. Werdegar, let me ask you a question. The President said that Head Start was a very different program, and Head Start was not slated for any cuts, but what they did was reduce the title XX funds and they reduced the Child Nutrition Program. So Head Start basically lost the human resources of people who work in it and the ability to continue the programs.

You suggested that something like that is going on in terms of AIDS research. While the line item AIDS research is not targeted for cuts, there is a diminishing amount of resources available in the other associated fields that are necessary to continue that comprehensive research?

Dr. **Werdegar**. Yes; I think you have summarized it very well. There are certain portions of the research that have been labeled AIDS most are new programs. But there is a very substantial amount of unlabeled research, which is addressing fundamental questions relevant to the control of AIDS which would be reduced by cuts. Also, as you suggested, there are a number other programs, drug abuse programs, community preventive education programs, social support programs, and even Medicare and Medi-Cal—which would be cut. All of those programs must be looked at, and a detailed analysis conducted that evaluates the indirect and direct impacts of these budget cuts on AIDS research and patient care. My impression is that there would be a very substantial detriment to AIDS research and care; even though there is the appearance of maintaining the effort.

Mr. **Miller**. I appreciate your testimony this morning, and we will witness a rather close scrutiny in terms of making recommendations to the Budget Committee, whether it is a wise proposal or not. Thank you very much.

And let me say to Tom Malinowski that there have been a lot of suggestions by politicians and others that students in our university systems and our college systems are somehow different from the students in the 1960's and the 1970's, that they are more selfish and uncaring. I would invite them all to read your testimony because I think it shows a spirit that is very important to the growth of this country and to providing opportunities to others.

I am really delighted that we were able to have both of you as representatives of students in this State on this panel. Thank you very much.

Mrs. **Boxer**. Thank you, Mr. Miller.

Before I call on Mr. Fazio for his questions, I want to note with great privilege that we have been joined by Congressman Norman Mineta of San Jose. Mr. Mineta is a former member of this Budget Committee. He is a member of the Public Works Committee and is subcommittee chairman on Aviation. He has played a lead role nationwide in pointing out the risks involved in this Reagan budget in terms of air safety. He is also a high ranking member on the Science and Technology Committee.

Welcome, Mr. Mineta. We are very honored that you could come. Mr. Fazio.

Mr. Fazio. Thank you, Mrs. Boxer.

I think we are getting a little behind our schedule, so I will be brief, as Mr. Miller was.

I would, however, like to introduce two of my constituents who are here in support of Mr. Kinney: Mike Rourke and Jeanette Ray. If you want to stand, you can do so.

I would like to make perhaps a little bit more explicit the testimony that Mr. Kinney gave us, by citing a real estate fact of life. And that is, for most families today in the middle-income bracket, it takes an astonishing 44 percent of their income in order to buy a home, as opposed to the 1949 figure of just 14 percent. And to bring it home to the bay area, many of you here in the room know that the Fairfield-Vacaville-Dixon area is probably the cheapest market in the bay area for housing for middle income people. And based on an income of $40,000 a year, which is, I am sure, for many people here higher than they have attained, and the low interest rate, relatively, only relatively low interest rate of 11 percent today, an individual could qualify for a loan of some $77,000. In the market that I have just outlined, Fairfield, Vacaville, and Dixon, only 18 percent of all the houses available in that area are under $80,000. That gives you some feel for how illusory the potential of home ownership is for most Americans today and certainly for most people in the bay area.

I want to thank you, Mr. Kinney, for your testimony. All of the effort to particularly increase the loan fees for VA and FHA home buyers, new home buyers, go directly against the trend that we all, I think, are supportive of. And that is to try to make home ownership more accessible and more available. And when you see rates going up from $1,000 to $3,000, in the case of VA loans, I believe, six times increases in the FHA loan, up-front costs for new home buyers, we can begin to understand how disturbing this budget is for all of us who understand not only what this means to the American family, but what it does to the economy that has traditionally been very dependent on homebuilding as a tremendous job producer.

I would like to just take a second and comment regarding Mr. Latham's testimony. First of all, I want to say that I was pleased to hear you indicate a desire to have hearings on this. Your subcommittee can be a very crucial player, perhaps is the most crucial factor in whatever Congress decides to do about the many different privatization initiatives that this budget presents us with.

I would like to put a few facts on the record and ask Mr. Latham for his comments.

If we are making a conservative estimate, we would conclude that it would be perhaps about a $60 billion investment that we American taxpayers have made in the transmission facilities and the power producing capacity of our five Power Marketing Administrations. The Grace Commission estimated as much as $77 billion, but I will take a conservative $60 billion figure.

This administration intends to sell off these power administrations for $12.7 billion. To give you a feel for it locally, the Central Valley project is on the block for about $447 million. It is conservatively estimated that the replacement value of the Central Valley project would be about $4.5 million.

I am wondering if you would comment for us as to whether you think this is a good deal for the taxpayer, even in the short term? And I wish you would also comment on what you believe to be the overall impact on budget deficits over the next 10 years because of the reduction in the interest payments, reduction in the amount that would be paid to the Government, the impact on the Federal Treasury of the declining revenues that would be available to us after the last several years after we have divested ourselves of these assets which are obviously valued way below their potential replacement costs.

Mr. LATHAM. First of all, let me say that the price is a very low price for the value of this facility. Certainly, you might call them bargain basement prices or even a fire sale. But when one considers that not only do those facilities pay back their own costs in addition to the operating and maintenance expenses, the construction loans, the interest on the money that was borrowed to build those facilities; all that money is paid back. And, in addition, you consider that those facilities are generally multipurpose in the sense that they offer flood control, irrigation, salinity control, not to mention recreation. Yet there is a positive revenue flow from the power sales to support those facilities; $450 million certainly is a bargain.

In terms of what the impact would be long term on the budget deficit, once the facilities were sold, there is not a positive revenue flow to the Treasury. So, consequently, there is no additional reduction in the deficit.

Mr. FAZIO. And after these facilities have been amortized, the General Treasury benefits from the additional income; is that not correct?

Mr. LATHAM. That is right.

Mr. FAZIO. That is something I am sure Mr. Miller would want to validate and make sure that this is the case in the future. But I certainly believe that the affected facilities would support that concept.

I also want to comment to the two representatives of the university students here today. I think maybe people do not understand that 10 years ago we had equal, 50-50 break between the grants and loans for students. And now, 10 years later, three times as much money is provided in loans. We are encumbering students with debts that they will have to carry on in life. I think it is understandable that perhaps people are a little bit more focused on a remunerative career and a little less able to deal in the concepts of public interest activity. I find that disturbing, but I think it is a fact of life, and I think it even further buttresses the fine arguments that you have made to the committee this morning.

I thank all the panelists for their participation.

Mrs. BOXER. Thank you, Mr. Fazio.

I have a couple of comments and then a question.

First, to our students, I want to say, at least echo the views of my colleagues that we were very moved by your testimony, both of you. You know, I do not understand why the President has not gotten the message on this. He should have learned. When he had that terrible assassination attempt on his life, the doctor who saved his life was the first generation American in his family—his family had come from Italy—that had gotten a medical degree and a college education. And the President held a big party to honor this particular gentleman. Indeed, there was—actually, the President didn't hold it, it was the Italian-American Club that held it, and they were both there.

The doctor got up and said to the President;

> Mr. President, this is the greatest honor that I ever had. I never would have imagined in my wildest dreams that I would have the honor to save the life of the President of the United States. But I want you to know that if it was not for student loans and the GI bill, I never would have become a doctor and I never would have saved your life.

And one would have thought that the President, at a very emotional moment, would have gotten the message, the message which you gave us so loud and clear today; that education is an investment, not an expense, and that it comes back triplefold, 10 times to society. And I think that your testimony today is absolutely beautiful, from someone who is receiving that aid and from someone who understands how important it is to society.

What I intend to do is take your statements, place them in the Congressional Record, and send it to the President with that enclosed. And, hopefully, he can see your statement.

I wanted to ask Dr. Werdegar—first to welcome him here again, and to ask him specifically more concerning AIDS.

I am very concerned that the first word that we heard about AIDS was that the numbers were frozen. However, when we looked through—and Mr. Fazio's staff helped me on this one, the Appropriations Committee—what we found out is that, actually, what the House had appropriated was $221 million, or in that range, for AIDS over 1986. That was versus supplemental appropriations. The President's budget would call for $152 million in 1986, and that is the number that he repeats for 1987. So while you mention this number for 1986, he is well below the number that Congress has appropriated. So it is indeed a cut in the funding for AIDS.

And what I want to ask you, Dr. Werdegar, first, is what is the cost to treat an AIDS patient; how much of this cost is being absorbed by the city and county of San Francisco? If you have those numbers. If not, we can leave the record open for that. And do you see an escalation in the number of AIDS cases across the country?

Dr. **Werdegar**. Thank you, Congresswoman Boxer. I can answer both of those.

The figures for AIDS care varies from community to community, but it is estimated from time of diagnosis to death, which is often a 2-year period, that the cost of care, in the hospital and in the home, can average around $75,000.

San Francisco actually has done better than most communities because it has, in fact, pioneered the use of in-home support services, care in the home and ambulatory care, so as to avoid extraordinarily expensive hospital stays.

Out of the now 17,000 cases nationwide, San Francisco has had 1,700 cases, 10 percent of the Nation's epidemic. Most of the services have been provided out of local city and county resources. We estimate city resources expended at about $10 million for AIDS services. I think this is an underestimate because it does not include indirect services or the services provided to patients not labeled AIDS patients.

Only very recently has there begun to be significant support coming from State and Federal levels and now this funding is threatened.

I have talked of the AIDS issue and I would also like to bring to your attention the increasing number of individuals with a related form of the disease, a less severe form called ARC, or AIDS related complex. ARC affects perhaps 10 times as many individuals as those who have frank AIDS. A significant portion of those, probably 10 percent, actually have a quite disabling form of AIDS related complex, with similar expenses and similar needs for social support. Therefore, you can essentially take all of the frank AIDS data and double it, to include the disabling forms of AIDS related complex.

We have noticed a leveling off of new cases in San Francisco over the last year, and we are gratified. Although we are ahead of the Nation in that respect, the number of increases still rise each month nationally. The number of ill patients nationwide is still expected to nearly double over the next year. So we are talking about a very substantial population of individuals. It is a major problem. I have only given you some of the numbers that you have asked about. In summary, Congresswoman, I would say the need for research and services is increasing, what is said to be a held constant budget is not, when looked at carefully to assess both direct and indirect cuts and the AIDS problem deserves more, not less Federal funding.

Mrs. BOXER. Thank you, Doctor. I will be looking closely as the budget is developed. Mr. Fazio reminds me that 25 percent of all AIDS cases are in the State of California. I think the incredible news that you give us, which is very good, that the number of AIDS cases has turned around in San Francisco at this point proves that education and prevention can work. San Francisco deserves to be commended tremendously for making this turnaround, which hopefully will continue.

I want to make just one more comment on the environment. I am very pleased to see Mr. Wheeler with us today, and the Sierra Club members. I hope you will take back a message to them, as you gave the message to us today; that under this budget the environment is under attack. There is no question; whether you look at the fact that there will be no coastal grants to coastal States this year, at a time when Mr. Hodel and the Reagan administration wants to drill along our coasts. They want to start in Mendocino County, and we would not have the funds statewide to deal with this.

To all the other issues that you raised—would you please give them a message from all of us here that we are going to need their support, nationwide; that this budget is very much alive, and will be a priority with the U.S. Congress; and we are going to need their help to point out, as you have in a very factual way, that this budget does not come close to meeting even half of our needs in a very important area—environment, health, and safety.

I thank you for your good testimony. We thank the entire panel. You have been an excellent representation of the fine quality of our citizens in the bay area. Thank you very much.

Mr. Regaldo, from the San Jose International Airport; Keith Bernard from BART; and Larry Dahms, Metropolitan Transportation Commission.

If people could settle down, we will proceed with this panel.

I will call at this time Larry Dahms. Mr. Dahms.

STATEMENT OF LAWRENCE D. DAHMS, EXECUTIVE DIRECTOR, METROPOLITAN TRANSPORTATION COMMISSION

Mr. Dahms. I have submitted testimony. My associate, Brenda Kahn, is a much better writer than I am a speaker. But in the interest of brevity, I will curtail it and just hit the high points.

I thank you for inviting us to testify.

The budget you have before you this year mirrors the one that was before you last year. Once again, the administration has called for reducing Federal transit by two-thirds and eliminating operating subsidies. Once again, funds for expanding transit, particularly the rail lines, is in jeopardy. Your committee saved the program last year, and you are faced with a need to repeat that performance.

The operating and financial summary information for each of the largest 17 operators in the region is attached to my testimony. I would only call attention to the fact that 1.6 million people, or riders, are using transit every day here in the region. The President's proposal would force the region's transit operators to reduce their $800 million annual budget by almost $160 million, or, roughly, 20 percent.

What are the strategies for dealing with cuts of that nature? I spend four paragraphs talking about four options: Local taxes, which we are pursuing; raising fares again, which have just been raised to cope with the last round of cuts; service cuts, maintenance reductions; and, finally, any other kind of cost cutting that can be invoked. The idea of the airlines of no frills service I think you already have in transit. But if there is a frill left, it would have to be cut. Finally, the withdrawal will bring to a screeching halt the rail extension program that we put together just 2 years ago.

I think the only thing that is really different this year than last year is that the President's budget is presented in the context of reauthorizing and restructuring the surface transportation program this year. In theory, the administration is offering State and local governments more flexibility in deciding how to spend reduced Federal contributions to transportation. This comes in the form of an urban mobility block program, whereby $2.2 billion in highway funds would be merged with $1.2 billion remaining in the transit program, and distributed to States and localities by formula. However, by holding back the remaining 11 billion in highway dollars, the proposal denies any real choice. This approach is understandable, given the need to complete the Interstate Highway System by the scheduled deadline of 1990 or 1991. But if transit funding is choked off precipitously, as proposed, the Federal Government is in effect forcing the answer of how funding is best spent before giving any real opportunity for local consideration. Thus, we urge continuing strong Federal support for both transit and highways until the reauthorization process resolves the question of level of Federal commitment and program structure.

In that sense, I guess we kind of anticipated, perhaps, that Mr. Mineta was going to join your committee today because we will be wanting to speak with him about that question.

The bay area has a remarkably diverse and extensive transit program, and it is a major factor in this region's appeal, not only to tourists but to business and industry as well. And rather than close, as I had in my testimony, I am reminded of an editorial recently in the San Jose Mercury News, where the case was made that local roads and local transit are important to the National Government. The example they used was that the so-called Star Wars Program, for whatever its merits, good or bad, some of those contracts, large contracts are coming to companies in Santa Clara, for example; and if the employees who need to get to those plants can't get there or don't get there in an orderly fashion, then that relationship to the national economy and the national business is important.

Again, when you can see that 1.6 million people are using transit daily, it is pretty clear that the national economy is affected by the health of the local economy, which in turn is affected by the health of transportation.

That is a very quick skipping over of the main points. Again, thank you for the opportunity to participate.

[Testimony resumes on p. 720.]

[The prepared statement of Mr. Dahms follows:]

PREPARED STATEMENT OF LAWRENCE D. DAHMS

Thank you for inviting us to testify regarding the potential impact of federal cuts on transit service in the San Francisco Bay Area.

I must confess to having a sense of deja vu. For it was exactly one year ago today that I came before this very same distinguished panel to lodge a protest against a proposal by the Administration to slash transit spending by some 70 percent. Thanks to the hard work of the members of the House Budget Committee, we were able to largely repel the assault, preserving the transit operating assistance program in the process.

In some ways this is going to be a repeat performance on my part. For the budget you have before you for the 1986-87 fiscal year mirrors the 1985-86 version. Once again, the Administration has called for reducing federal transit spending by two-thirds and eliminating transit operating subsidies. Once again, funding for expanding transit service, particularly for constructing new rapid rail lines, is in jeopardy.

We can't deny, however, that the situation today is somewhat different than it was on February 14, 1985. The budget deficit has grown from a nagging worry to the overriding issue facing decision-makers in Washington. Passage

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of the Gramm-Rudman-Hollings budget-balancing act, with its automatic budget cuts, is forcing both the Administration and Congress to take a hard look at every federal assistance program. Your hands may not be tied, but you are facing some very real limitations.

The climate in which MTC and the Bay Area's transit systems are operating likewise has changed, mostly for the worse, I am sorry to report. As a result of the continuing resolution passed in December and the near-immediate across-the-board cuts mandated by Gramm-Rudman-Hollings provisions, Bay Area transit systems in the current fiscal year already will have to make do with 15 percent less federal funding than they received the prior year. What we have here is a spiraling withdrawal of the federal government from its long-standing partnership with state and local governments to provide a vitally important public service. The basic message that we delivered to you last year at this time still holds, namely that the cuts and policies emanating from Washington threaten the integrity of the Bay Area's extensive public transit network.

The Bay Area's 17 largest public transit systems daily carry some 1.6 million riders with a collective annual operating budget of around $650 million.* But this figure only tells part of yearly costs. A study conducted by the accounting firm of Peat, Marwick, Mitchell at MTC's request concluded that we must spend an additional $150 million a year to sustain the transit capital plant -- that is, replace wornout vehicles and the like.

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* Exhibit 1 provides operating and financial summary information for each of the 17 transit operators.

The President's proposal would force the region's transit operators to reduce their $800 million annual budget by nearly $160 million, or roughly 20 percent. There are a number of strategies for dealing with cuts of this magnitude.

The seemingly obvious solution of raising taxes has been difficult and often downright impracticable in California since the passage of the tax-limiting Proposition 13. Nonetheless, there is a move afoot in the Bay Area to increase sales taxes on a county-by-county basis to provide revenues for transportation projects, and MTC is at the forefront of this effort. At best, however, this is a partial solution with an indefinite timeline and limited return.

Another way to compensate would be to raise fares by as much as 50 percent. Several of the region's transit operators instituted sizeable fare increases as of January 1 just to compensate for declining tax revenues and meet current expenses. Further large increases would be counterproductive, inducing disaffected riders to abandon public transit altogether.

In the absence of replacement revenues, transit systems would be forced to trim service and cut back on system maintenance. When confronted with a budget squeeze, especially one that seems temporary, transit systems tend to favor retaining as much service on the streets as possible, often at the expense of maintenance. While the effects won't be immediately apparent, neglect of routine maintenance eventually would snowball, resulting in frequent breakdowns, higher accident rates, disruption of service and higher overall costs in the long run.

Finally, every potential cost-cutting device would have to be invoked. This exercise is especially challenging for the transit industry given the nature of the service. To borrow a term coined by the airlines, transit in the Bay Area is already a "no-frills" operation with few luxuries or extra services to pare back.

If Congress approves cuts in the magnitude suggested by the Administration, Bay Area transit systems would have to employ all of the above strategies to cope. Forced to dig deeper into their pockets to pay for service that is less reliable and less frequent, many transit commuters would no doubt defect to the automobile, further crowding the Bay Area's congested highways and bridges.

This discussion hasn't begun to take into account funding for much-needed capacity expansion. The region's already strained transportation network will be called upon to absorb tens of thousands of new commuters as the Bay Area gains another million jobs over the next two decades. Bracing for the onslaught, MTC two years ago adopted a blueprint for extending the region's rapid rail network by some 90 miles at a cost of $2.8 billion over 16 years. The withdrawal of federal funding could bring rail expansion plans to a screeching halt.

This year the President's budget is presented in the context of recommendations for reauthorizing and restructuring the surface transportation program. In theory, the Administration is offering state and local governments more flexibility in deciding how to spend the reduced federal contribution to transportation. This comes in the form of the Urban Mobility Block Grant Program whereby $2.2 billion in highway funds would be merged with the $1.2 billion remaining in the transit program and distributed to states and localities by formula. However, by holding back the remaining $11 billion in highway dollars, the proposal denies any real choice.

This approach is understandable given the need to complete the Interstate highway system by the scheduled deadline of 1990 or 1991. But if transit funding is choked off precipitously as proposed, the federal government is in effect forcing an answer to how funding is best spent before giving an opportunity for local consideration. Thus we urge continuing strong federal support for both transit and highways until the reauthorization process resolves the questions of level of federal commitment and program structure.

The Bay Area's remarkably diverse and extensive public transit network, with modes ranging from ferries to the antiquated cable cars to the trend-setting BART rapid-rail system, is a major factor in this region's appeal not only to tourists but to business and industry as well. Ultimately what is at stake with the Administration's budget is the economic vitality of a region that the rest of the nation is relying on for its well-developed high-tech industries -- industries that are making critical contributions in the areas of scientific research, defense and space exploration. The short term gains to be achieved by pruning back and stunting the region's public transit network are more than offset by the potential long-term losses this approach poses to us here in the Bay Area and the nation as a whole.

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EXHIBIT I

MAJOR TRANSIT SERVICES IN THE BAY AREA 1984-85 (a)

	OPERATING DATA		SOURCES OF OPERATING FUNDS (c) ($000)							TOTAL OPERATIONAL EXPENSES ($000)
			LOCAL				STATE	FEDERAL		
	Fleet	Average Daily Ridership	User (Fare)	Local Taxes	TDA(d)	AB 1107(e)	STA(f)	UMTA(g)	OTHER(h)	
AC Transit (b,i)	850	254,000	30,710	14,626	20,089	11,400	3,107	7,437	13,789	102,976
BART	439	211,600	67,468	86,788	500	286	3,600	--	(11,914)	147,144
Caltrans (b)	63	15,500	8,863	--	3,992	--	2,571	2,000	9,841	27,267
Central Contra Costa County Transit Authority (County Connection)	84	13,200	1,127	--	4,600	--	--	1,415	(673)	6,469
Eastern Contra Costa County Transit Authority (Tri-Delta)	18	1,500	137	--	1,036	--	--	--	(147)	1,026
Fairfield Transit	8	1,200	65	--	154	--	--	225	(72)	372
Golden Gate Bridge Highway and Transportation District	253(j)	35,100	15,216	--	6,222	--	724	1,856	10,809	34,827
Livermore Transit (b)	11	900	82	--	702	--	--	--	(81)	703
Napa City Transit	8	1,800	114	--	181	--	--	179	(15)	459
San Francisco Muni	995	881,400	55,500	97,051	9,951	13,400	8,616	9,059	8,005	201,582
San Mateo County Transit (SamTrans)	292	71,100	7,123	7,377	10,998	--	261	1,699	984	28,442
Santa Clara County Transit	542	112,700	10,288	40,196	32,591	--	--	6,983	387	90,445
Santa Rosa Transit (City Bus)(b)	17	4,400	370	--	751	--	--	350	(41)	1,440
Sonoma County Transit	26	3,100	519	--	1,989	--	10	--	(300)	2,218
Union City Transit (The Flea)	6	1,300	132	--	807(l)	--	54	202(l)	(20)	1,175
Vallejo Transit	24	4,700	310	--	1,022	--	40	374	(287)	1,459
Western Contra Costa County Transit Authority (WestCAT)	12	1,000	119	--	725	--	35	287(l)	(133)	1,033
Regional Total	3,648	1,614,500	198,143	246,038	196,310	25,086	19,018	32,066	30,132	649,037

(a) Unless otherwise noted, figures represent, or are calculated from, FY 1984-85 certified data (fiscal audits, MTC resolutions, contracts).

(b) Estimated actual or budgeted data.

(c) TDA, STA, AB1107 and federal funds correspond to MTC allocations. Actual amount used for the fiscal year might have varied somewhat. Any adjustments are made under "other."

(d) Transportation Development Act.

(e) 25 percent of the one-half cent transactions and sales tax revenues collected in Alameda, Contra Costa and San Francisco Counties.

(f) State Transit Assistance.

(g) Urban Mass Transit Administration grants (Sections 5, 6, 9, 18 and 20).

(h) Parenthesis indicate funding not actually spent for operations in 1984-85 fiscal year. Because three operators showed funding deficits, total expenses exceeded actual revenues.

(i) AC Transit Districts 1 and 2 and BART contract bus services.

(j) In addition, service is provided by 19 ridesharing vans and 17 club buses.

(k) Includes allocations to SF Muni, SamTrans

(l) Includes allocations to AC Transit contract services for WestCAT and The Flea.

Mrs. BOXER. Thank you, Mr. Dahms. Mr. Bernard.

STATEMENT OF KEITH BERNARD, GENERAL MANAGER, SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

Mr. BERNARD. Thank you, Madam Chairperson and distinguished members of the panel. I will also try to hit briefly the high points of testimony which we prepared.

I certainly say that my colleague here does speak for all of the regional transit partnership, which, as you know, has many operators in this region. And I think I just want to speak specifically to something which is very important and is specific to the BART programs.

I guess today's weather underlines the high importance of transit to this region and its economic development, and especially the need for more and better regional transit. I do not need to tell you that BART provides very much needed capacity in very congested corridors, certainly in the three-county BART district.

Although the residents of the bay area have repeatedly identified transportation as their No. 1 concern, the new budget proposal will further reduce our ability to respond to the critical mobility needs. The proposal, in effect, reduces transit funds by $2 billion, or more than 60 percent of the program. Operating assistance would be eliminated, as you know and you have heard said before; capital assistance cut in half. That affects all of us in the region and the transit partnership that we have. The capital problem is particularly acute to BART.

We are in the middle of completing an expansion program which is largely funded, but could be threatened by this budget. Being unable to complete it would slow down or maybe eliminate our ability to provide the expanded capacity to the existing system.

Even more important is the ability—we are on the verge—to extend the system into growing areas. I would particularly point to eastern Contra Costa County and Alameda County as areas which are developing without proper transit infrastructure; developing just as those counties were developing when the BART system was begun. We are on the verge of trying to do something there, and this budget would cut out entirely the new starts funding and completely eliminate it.

I have submitted testimony which parallels that of Mr. Dahms in terms of introducing flexibility in the highway and transit funding, and doing it in real ways. So I will not elaborate on that here.

I would just like to point out the irony to us in this region. We raised a lot of local money to build BART, and we have 80 percent local funding in the construction. We then went into a period when we could not do anything more, and a lot of Federal money was available. Other cities used it to build new systems. Here we are today on the verge of being able to extend our system, and the Federal money is about to disappear. I think that is a travesty, and I hope something can be done about that.

I would be pleased to answer any questions in more detail. My testimony is being submitted. Thank you.

[The prepared statement of Mr. Bernard follows:]

PREPARED STATEMENT OF KEITH BERNARD

Thank you for providing me the opportunity to comment on the effects of the proposed budget on BART.

Although the residents of the bay area have repeatedly identified transportation as their number one concern, the new budget proposal will further reduce our ability to respond to critical mobility needs.

The proposal in effect reduces transit funds by $2 billion, or more than 60 percent of the program. Operating assistance would be eliminated and capital assistance cut in half. The loss of capital assistance will constitute a particular problem for the BART system.

We are currently in the final stages of a $600M program to nearly double our capacity and end crowding on the existing system. Local sources will provide $300M of program cost with the balance drawn from the Federal program through fiscal 1987. The proposed budget directly threatens this last increment of our capacity expansion program with delay if it must be completed with limited local funds.

Even more ominous are the implications for extensions of the BART system to rapidly growing areas of Alameda and Contra Costa counties to the east of San Francisco. The administration proposal contains no provision for Federal assistance in such extensions.

The projects involved are included in the Metropolitan Transportation Commission's program through the year 2000, West Pittsburg, Dublin, Warm Springs in Fremont, and San Francisco Airport. The total cost of these projects is just over $1.6 billion.

While the apprehension about such expenditures in the context of the Federal deficit is understandable, we cannot allow ourselves to be diverted from our objective just as the need grows more critical.

Deletion of new rail starts and extensions from the Federal program would kill the local Federal partnership needed to extend our system.

While the initial BART system was largely funded from local sources, the Federal contribution was the key to completing the effort and providing today's effective, successful system.

There is a growing understanding that local support will again need to play a significant role in BART extensions, but a continuing Federal component will be essential.

As your partners in this program, we need to not only call out the consequences of the administration proposal, but offer some thoughts on how we can continue the program consistent with deficit reduction efforts.

One approach to meeting the need could be through additional flexibility in the Federal Transportation Program. The administration has proposed a partial merging of highway and transit funds into a block grant program. The concept should be extended further to include the interstate program within urban areas.

A true consolidation of highway and transit funds could be a meaningful program, allowing each local area to determine the most cost effective transportation investment. Current program limitations prevent consideration of options and mandate highway solutions. Additional highway lanes are proposed when transit could provide more capacity at the same price.

Give us the option at the local level to decide what is the most effective way to utilize transportation dollars. Flexibility will allow us to get the most mileage out of available Federal monies.

I hope my comments will receive consideration by you and your colleagues as your grapple with the task ahead.

Thank you for the opportunity to speak with you. I will be happy to respond to your questions.

Mrs. BOXER. Thank you very much, Mr. Bernard.

I would like at this time to briefly call on Mr. Fazio, who must catch a plane back to Washington and wanted to say a few words.

Mr. FAZIO. I will be very brief. First of all, I apologize to you, Mr. Regaldo. I will not have a chance to hear you, but I will read your testimony. And to my good friends, I know I leave you in good hands with the others on the panel. And we will work once again to try to keep operating our transit systems in this State that have increasingly large roles.

But I simply point out as a representative of some of the nonurban areas in the State that we will see a 65-percent cut in the operating capital in the rural areas as a result of this budget, as well. I simply wanted to point that on the record. I want to thank you for letting me leave early.

Mrs. BOXER. Thank you, Mr. Fazio.

Mr. Regalado, with San Jose International Airport.

STATEMENT OF RAUL L. REGALADO, DIRECTOR OF AVIATION, CITY OF SAN JOSE INTERNATIONAL AIRPORT

Mr. REGALADO. Thank you, Madam Chairwoman and members of the committee.

My name is Raul Regalado, and as director of aviation for the city of San Jose, I have the responsibility for operating the San Jose International Airport.

For your information, I am a member of the board of directors for the Airport Operators Council International, and a past president of the California Association of Airport Executives. I also have been the manager of John Wayne-Orange County Airport, the city of Fresno airport, and the Klamath Falls, Oregon Airport. So I am able to bring with me perspectives ranging from general aviation to one of the largest medium hub airports in this country.

San Jose International Airport is experiencing a tremendous growth rate. In 1985, we experienced a growth rate five times the national average. We are the 12th busiest airport in the country, based on our aircraft operations.

San Jose Airport operates as an enterprise fund of the city, funds its projects with a combination of user fees—including landing fees, rental fees, concession revenues, as well as Federal funds for our capital improvements and development.

In order to keep up with the demands of the traveling public and the airlines, airports, as San Jose, have embarked on major expansion and improvement programs. These projects are not entered into lightly and strictly for the sake of creating fancy new facilities, but rather to improve the safety, public convenience, and efficiency for the traveling public.

Runways wear out and must be replaced. Terminal facilities become inadequate to handle the higher user volume and new types of aircraft. And safety features must be upgraded to remain compatible with the latest aircraft and Federal aviation requirements, such as those recently imposed by the FAA to enhance security at the Nation's airports.

We are also in one of the more dynamic economic base areas, Silicon Valley, CA, and provide services to the high-tech firms that are continuing to experience significant growth rates.

Within the transportation category of the administration's proposed budget, where the moneys are allocated to aviation, it appears that the grants for the airport improvement programs will be cut by 20 percent. This is based upon the interpretation by the administration, that recent studies indicate that the Nation's largest airports are able to finance their capital improvement projects themselves, without Federal assistance. This may be true in a simplistic way. However, further investigation shows that these same projects draw funds from other projects which would have been self-funded. All it does is spread self-funding thinner over all projects. In the end, many projects would either have to be postponed or canceled altogether.

The irony is that while a major reduction is proposed for the airport program, a significant increase is proposed for other FAA operations, which is contrary to the penalty provisions provided for by Congress in the existing airport and airway bill.

The other aspect is that there, today, exists over a $5 billion surplus in the trust fund which has gone unexpended.

At San Jose International, a large portion of our Federal funding has been used for State-mandated, noise abatement programs. In fact, we have expended $34 million to date to acquire properties and relocate residents from high noise impact areas or potential safety hazard areas.

The airport uses its own money up front to purchase these homes and relocate the residents, and to insulate homes in these heavy noise impacted areas. Fortunately, a great deal of these moneys have been reimbursed by the Federal Government through the Airport Improvement Program or its predecessor programs.

Loss of any of these funds would create a severe hardship on those residents still in these areas. Many are elderly, and the neighborhoods have already been partially removed under our program.

San Jose International received a total of $5.6 million in grant moneys during last fiscal year: $2.3 million in FAA explanement entitlement funds were used for parking aprons and land acquisition for noise and safety purposes, and $3.3 million were FAA discretionary funds, also used for land acquisition, for noise and safety purposes, as well as runway and taxiway signage for safety considerations.

If a 20 percent across-the-board cut is made, the FAA assistance would fall to just over $4 million, assuming funding at the same levels, resulting in multiyear funding of projects using explanement entitlement funds, and a delay of our noise mitigation program. Any delay in land acquisition funding will result in an ensuing increase in cost due to inflation and potential increased liability.

I am sure that you are well aware that Senator Kassebaum from Kansas has introduced legislation, Senate bill 1979, to remove the aviation trust fund from the unified Federal budget, similar to that introduced by Congressman Mineta last year. The idea behind the trust fund was to keep aviation moneys for aviation purposes and, in fact, to spend those moneys for safety and improvement measures.

It is the position of the city of San Jose that this effort should be supported, and we do support the removal of the aviation trust fund from the unified Federal budget and its use for its intended purpose, as specified under congressional legislation.

I thank you for the opportunity to testify today.

[The prepared statement of Mr. Regalado follows:]

PREPARED STATEMENT OF RAUL L. REGALADO

Mr. Chairman, members of the committee, ladies and gentlemen: My name is Raul Regalado, and I'm director of aviation for the city of San Jose. San Jose owns and operates San Jose International Airport.

I am a member of the board of directors of the Airport Operators Council International [AOCI] and past president of the California Association of Airport Executives [CAAE]. I have previously been the manager of John Wayne (Orange County) Airport, the city of Fresno Airport, and city of Klamath Falls, Oregon Airport.

San Jose International Airport is experiencing tremendous growth, and, by way of illustration, we passed a major milestone last June when, for the first time, we handled over 4 million passengers in a 12-month period. With this continued growth pattern, we expect to pass the 5 million mark in the summer of 1987. Growth of that magnitude is doubly impressive when you realize it took us from 1949 to 1978 to reach the 3 million passenger mark.

San Jose International Airport (SJC) is considered a medium hub, and, as an Enterprise Fund department, funds its projects with a combination of user fees (landing fees, rent, concession revenue, etc.) and Federal funds. In order to keep up with the demands of the traveling public and the airlines, airports have embarked on an expansion and improvement program.

These projects are not entered into for the sake of creating fancy new facilities, but rather to improve the safety, convenience, and increase efficiency for the traveling public. Runways wear out and must be replaced, terminal facilities become inadequate to handle the higher user volume and new types of aircraft, safety features must be upgraded to remain compatible with the latest aircraft and FAA requirements, and, finally, the demands of the economic base establishment (Silicon Valley high tech firms) require service and associated facilities they consider appropriate to their needs.

The Federal budget the President has proposed for fiscal year 1987 envisions a transit sector cut of 62 percent from last year, and last year's was 15 percent lower than the year before.

Within the transit sector lies the moneys allocated to aviation. It appears that the grants for AIP programs will be cut 20 percent. This is based upon the interpretation by the administration that recent studies indicate the nation's larger airports are able to finance their capital improvement projects themselves without federal assistance. This is true in a simplistic way only. Further investigation shows that these same projects draw funds from other projects which would have been self-funded. All it does is spread the self-funding thinner over all projects. In the end, many projects will be postponed or cancelled altogether.

At San Jose International Airport, a large portion of our Federal funding is used for State-mandated noise abatement programs. The City uses its own money up front to purchase homes or mobile coaches and to insulate homes in heavy noise-impacted areas. These funds are then 80 percent reimbursed by the Federal Government. Loss of any of these funds would create a severe hardship for those domiciled in this area. Many are elderly, and the neighborhoods are already partially removed under the program.

The proposed budget will cut $48 million from research, engineering and development and facilities and equipment will be slashed by $120 million (both after Gramm-Rudman-Hollings). San Jose International received $2.3 million in FAA enplanement funds during the past fiscal year. These money were used for major projects as follows: (a) Apron Phase I, (b) Apron Phase II, (c) Noise Land Acquisition.

The Airport received $3.3 million in FAA discretionary funds during the past fiscal year which were used for: (a) runway/taxiway signs, (b) noise land acquisition.

If a 20 percent across-the-board cut is made, then FAA assistance falls to $4.4 million, resulting in multiyear funding of projects using enplanement funds and a delay of our noise mitigation program.

Any delay in receiving reimbursement for land acquisition will result in an increase in interest costs.

The airport is an integral part of the national air transportation system. SJC, after years of being considered a poor "country cousin" to larger, better known Airports, has developed into the major air carrier in the midst of burgeoning Silicon Valley.

Already overcrowded, the airport has embarked upon a major terminal expansion program, funded by development bonds. However, Federal money was used in several ways to aid in the infrastructure involved. This program was predicated, in large part, upon a continued increase in air travel. If Federal aid is cut by 20 percent as proposed, it is possible landing fees may have to be increased to cover any repayment shortage. To recoup this shortage, the air carriers may be forced to (1) increase fares, (2) reduce quality of service, or (3) reduce the frequency of flights.

San Jose International Airport is an efficient, cost-effective community asset which is still growing to meet the needs of the area. Any increased costs or decreased service levels can only have an adverse effect on the users.

As I am sure you are aware, Senator Nancy Kassebaum (R. Kansas) has introduced legislation (S. 1979) to remove the Aviation Trust Fund from the unified Federal budget. The idea behind the trust fund was to keep aviation money sacrosanct and used only for aviation-related activities. Even though subject to Gramm-Rudman-Hollings, the separation will result in a funding source which cannot be siphoned off to pay for large deficits in other budgetary sectors. San Jose supports removing the Aviation Trust Fund from the unified federal budget.

Thank you for the opportunity to testify before this committee.

Mrs. Boxer. Thank you very much. Mr. Mineta.

Mr. Mineta. Thank you very much, Mrs. Boxer. And I would like to thank Mr. Bernard, Mr. Dahms, and Mr. Regalado for their testimony here.

I would like to ask a very general question about what is happening in the transit world.

Mr. Bernard, in terms of the capital expenditures and operating expenditures on the part of BART, what percentage has been coming from Federal sources in the last 10 years?

Mr. Bernard. I think we have to look at different periods. The construction of the system, for instance, represents a huge investment, and roughly 23 percent of that has been Federal. So we are way behind what the rest of the country has enjoyed.

Mr. Mineta. If you have received 23 percent of your capital assistance in Federal aid, how does that compare with the other operating agencies across the country?

Mr. Bernard. I think the dramatic comparison would be with the city of Atlanta, for instance, which has just the reverse ratio almost. Seventy-five percent of their system has been built with Federal assistance. And that is the irony, that because of the timing, we in this region seem to be missing out on that.

Now, under our current——

Mr. Mineta. So as you go into your next extension in Contra Costa and some of the other areas, the potential is really zero?

Mr. Bernard Well, we seem to be back to the original position, where, if we are going to do it, we would have to raise a lot more local funding. And, still, the margin that we could get from Federal assistance, even if it were only 40 percent, 30 percent would be very important in putting it over the top. But it is ironic that other cities have had 80 percent Federal funding, whereas we only had 20 percent. We are back at a point in time where it is eroding right underneath our feet.

Mr. Mineta. What about operating assistance?

Mr. Bernard. Operating assistance, BART itself does not draw on the operating money that comes to the region. But we are part of a regional system which does depend heavily on that operating funding. BART cannot work alone. So, as Mr. Dahms has mentioned, we have six major operators, a number of smaller operators, all of whom have to work together. For instance, A.C. Transit feeds many passengers to BART, and they heavily depend on the operating assistance. And that could just eliminate their abilitv to provide the mobility that is needed.

Mr. MINETA. Let me turn to Mr. Dahms. In terms of the MTC and what you have seen, you are dealing both with highways as well as with the mass transit systems, whether it is fixed rail, highway, buses, or other forms of transportation. You are a planning agency that looks at the overall picture. Have you seen a shift in the emphasis from highway to public transit, or vice versa? What about the balance between the two forms?

Mr. DAHMS. Well, I think in the larger sense, perhaps one of the jusitifcations for the Federal Government to engage itself in transit in the first place was that it was engaged in the highway program; and being involved in one and not the other, in a sense, to some degree, skewed the decisionmaking.

Today, in my testimony, I focused for the most part on the transit reductions. However, the President's budget would also reduce the highway program this time. The reauthorization proposal from the administration would reduce the highway program to something less than $13 billion compared to the former authorization which approaches $16 billion.

But, again, the larger reductions, percentagewise, far larger reductions come in the transit program. So from the Federal level, I would say that you had a situation with a period of slightly more than a decade where the Federal Government tried to sort of even the playing field, you might say, and give the local people an opportunity to make their choice by having both transit and highway funds available. The current proposal would reduce from $3.7 to $1.2 billion, the transit funding; a reduction of about—approaching 70 percent, which is more significant than the highway reduction.

Speaking quickly to your earlier question to Mr. Bernard, the Federal operating subsidy, which would be eliminated entirely, contributed $32 million to operating funds to the several operators in the 1984–85 fiscal year. And that represented about 6 percent of their total operating budgets.

Mr. MINETA. Was that $32 million?

Mr. DAHMS. Yes.

Mr. MINETA. In the nine-county area that is within your planning jurisdiction?

Mr. DAHMS. Yes.

Mr. MINETA. Given the growth of transportation needs in the nine-county area, are there other local sources that would have to pick up these funds? For instance, Santa Clara County was scheduled to receive $65 million for the Guadalupe Corridor Program, 1986, yet Gramm-Rudman will be cutting about $3 million from that. I have not had a chance to ask them specifically what they are going to do.

Will that $3 million have to come from a local source, or maybe you save up $3 million this year on some piece of the contract? You still end up doing the work but it may cost you $1.8 million more to complete the system due to inflation during the delay.

Mr. DAHMS. I do not think I can give you an exact answer to how this would unfold. But it is my understanding that the Guadalupe, because it is under a full-funding agreement, that that would be honored. But if you start to think then about how it would be honored, you could see what kind of problem it would create.

For example, in the bay area, our total amount of on the order of $200 million a year would be reduced to on the order of $58 million a year. And then if Guadalupe or any other full-funding agreement had to be honored first, you can see that $58 million would be stretched thin. Anything that would come off the top would leave very little left for what previously was a fairly significant program.

So, again, as I understand it, the full-funding agreements would be honored. But to the extent they would have to be honored, that would make the pressure on those who do not have full funding even more severe.

Mr. MINETA. Now, as I understand the Urban Mobility Grant Program in the President's budget, operating assistance to cities over 200,000 is eliminated. What impact would that have on agencies within your nine-county area?

Mr. DAHMS. Well, it varies by agency. The A.C. Transit, for example, is in the process of raising their fares to 75 cents, and they have just raised their TransBay fares. BART has just raised their fares by 30 percent.

Our calculations show that you could have as much as a 50 percent fare increase requirement if this full program were to be adopted by the Congress. As a practical matter, I do not think you could raise fares that much because you get to a point of diminishing returns where you drive away too many patrons.

Mr. MINETA. Let me ask Mr. Bernard about that point. As an operator, what was your experience from the last fare increase?

Mr. BERNARD. Well, we did raise fares 30 percent, and that is a significant increase. The erosion of ridership as a result of that has not been large. We have done that kind of a fare increase before. We do it over a 3-year period. If we had to turn around and raise fares another significant amount right now, I think you would see people deserting the system all over the place. Thirty percent was as much as we could do. And as the testimony shows, that is not enough if this budget were to go through. And we would then be faced, I think, with cutting service, all of us in the region.

Mr. MINETA. In Santa Clara County, as far as surface transportation is concerned, we are facing gridlock. In the face of that situation—and I am quite sure it is not unusual in other parts of the nine-county bay area—such a tremendous decrease in either highway or the transit funding, is ridiculous. Mr. Bernard, is your system strictly all heavy rail?

Mr. BERNARD. Well, the system is basically heavy rail, but we do operate under contract an extensive express bus service, serving parts of our area which are not served by rail. So we do have a significant experience in buses, and they are threatened in the same way everything else is threatened.

Mr. MINETA. When, for example, Federal funds for maintenance are cut back, what happens? Is there a tendency to let the maintenance go and just say we will rely on the Capital Assistance Program to replace the buses every so many years, rather than to put the money into maintenance?

Mr. DAHMS. I did not read my testimony, but I did speak briefly to that in the testimony.

Every transit management and every transit board, obviously, would have to make their own decision. But I think it poses an interesting question, or a difficult question. If the transit board thinks this is perhaps only a temporary reduction, then they are going to be reticent to cut services. They are going to want to continue the services. If, however, it turns out not to be a temporary reduction, but a long-term reduction, the way they would have saved money by not reducing services probably would have been to defer maintenance, to defer replacement of equipment, and so forth.

In the long run, in transit just as in road maintenance, if you do not pay attention to your preventive maintenance, you will ultimately pay a much larger bill when the equipment wears out. I think you can look to the substantial difficulties that New York is having, the grand system of them all in terms of size and in terms of patronage; but if you look at the difficulty they have because they allowed their capital plant to deteriorate, you can see a model that I do not think we want to emulate here.

So again, yes, I am afraid the temptation is there that, at least in the short run, to try to avoid service reductions, to try to make up the cost savings by deferring maintenance or capital replacement. But if you continue that kind of a shortrun strategy for very long, it will turn out to be the wrong strategy.

Mr. BERNARD. Congressman Mineta, I would have to say very strongly that, as an operator, we would cut service before we would defer maintenance. We think maintenance is absolutely critical, and the minute you start going down that path you are heading for disaster. I think our board, facing that tradeoff, would actually cut service before we would cut maintenance.

Mr. MINETA. But you really attract customers largely based on the amount of service you can provide on your trains. Does that not diminish, then, even more rapidly the transit population you will be serving?

Mr. BERNARD. That is a disastrous cycle whichever way you look at it. But there are service times which are less used than others. And I think that that is the margin where we would have to look if we literally had to cut service. But if we started cutting maintenance, then we really would be cutting into people who use the system because it would become less reliable, and pretty soon it would not be worthy of the investment we have in it.

Mr. MINETA. Mr. Dahms, do you have any statistics in terms of the population that is being serviced in the mass transit programs in terms of elderly, working poor, minority? Who is most heavily affected by these kinds of cuts?

Mr. DAHMS. We have ridership surveys for several of the operators, and it varies by operator. If you look at San Francisco, I think you would probably find the entire spectrum of the San Francisco population affected. I think if you look in your own county, at Santa Clara, it was clear that one of the objectives there was to serve those people who cannot be served by—who do not have access to an automobile. So, therefore, there clearly was a social service objective to serve those who are elderly.

I do not have those numbers with me, but we could provide that kind of information to you. But I think clearly, in general, I could respond to you that the poor, the elderly in many of our communities are very much dependent upon the transit programs.

Mr. MINETA. It just seems to be ironic that an administration that promotes images of people pulling themselves up by their bootstraps is taking a basic service away from the public in terms of any opportunity to better themselves, whether it is education, jobs, or other areas.

Let me turn to a good friend of mine, Mr. Regalado from San Jose, who is the director of the airport there.

We have an aviation trust fund, which is supported by the users of the aviation system. It is based on a ticket tax from commercial aviation users, a gasoline tax from general aviation users, an international departure tax, and cargo weigh bills.

Now we have just ended 1985, a record year in aviation history. I have been able for fiscal year 1986, with your help, to get aviation inspectors, air traffic controllers, and security personnel added to the transportation appropriations bill. However, we will now find that with the Gramm-Rudman cuts and the President's submission of this budget, we are going to be regressing to roughly the fiscal year 1982 funding and staffing levels.

Of course, this is disturbing because of the implications for aviation safety.

Mr. Regalado, let me ask in your position on the Airport Operators Council as well as the American Association of Airport Executives, what you see happening to aviation in this coming fiscal year if these cuts are allowed?

Mr. REGALADO. Congressman Mineta, Chairwoman Boxer, I think the projected results are fairly self-evident. If the fund limitations are imposed or cutbacks are implemented, these critical and necessary safety inspectors, security personnel, air traffic controllers would not be added to the system under the operations budget, then there would certainly be a continued derogation of the safety of the system. If funding cutbacks or limitations are imposed upon the capital improvements to the system, we are going to see an arbitrary and self-imposed constraint on the ability to accommodate the air traveling public because of the inability of airports themselves, on the land side as well as the field side, to handle the increased activity.

Mr. MINETA. Suppose the administration is successful in defederalizing the Airport Improvement Program and making airports above a certain size ineligible for Federal assistance and reducing funding for smaller airports. How do you feel about this defederalization of the airports?

Mr. REGALADO. I have some major concerns with respect to defederalization of the airport program, primarily along the lines that we are seeing now with locally imposed environmental restrictions; where each airport views their situation differently, and rightfully so, and imposes certain restrictions. With defederalization and the loss of Federal revenues, airports would therefore impose a replacement funding mechanism upon the local air traveling public which would not be standardized, and it would not be if it were possibly defederalized.

Mr. MINETA. Do you think that would be attractive for the administration to say, we will defederalize the airports and we will let each of those airports charge their own head tax?

Mr. **Regalado**. I suspect that is—from what I understand their proposal to be—the direction that they are headed in.

Mr. **Mineta**. But what would that do in terms of trying to collect that head tax if it is going to vary from community to community? What kind of load does that put on you, the airport operator, the airline itself, travel agents, and others who have to ticket people, change tickets, keep track of their money?

Mr. **Regalado**. It would impose a tremendous work load and burden on the system and, in fact, probably create chaos for the air traveling public.

Mr. **Mineta**. What about delays? If an airline is not able to take off on schedule from your airport because it cannot get into the airway system, or is not able to land at its destination without having to circle around, what do delays do to your airport and airports in general?

Mr. **Regalado**. Airports in general, I think we would continue to see a further negative impact on delays to the air traveling public and to the airlines they we are now experiencing at the major hubs throughout the country. This problem would be further exacerbated, certainly. Specifically, in San Jose, as one of three air carrier airports within the bay area, we now are impacted adversely by delays in and out of the area, primarily because San Francisco, in this case, is given priority for air traffic. And I would say that would further deteriorate our position within the bay area.

We are competitors, although friendly competitors, with the two other airports. But we are seriously concerned about the erosion of our competitive position that would be caused by delays.

Mr. **Mineta**. What is your airport's ranking in terms of its number of operations?

Mr. **Regalado**. Twelfth busiest.

Mr. **Mineta**. If we had to impose a general aviation reservation system, what would happen?

Mr. **Regalado**. There would be a serious impact on San Jose. Seventy-five percent of our operations are general aviation operations, and we have a based population of approximately 700 airplanes at San Jose. So, certainly, any restrictions on general aviation's ability to use the system or get in and out of San Jose would have an adverse impact.

Mr. **Mineta**. The bottom line in aviation is safety. I think that is the important message that we have to convey.

Let me thank Mr. Dahms, Mr. Bernard, and Mr. Regalado for their presentations here.

Mrs. **Boxer**. I think you understand why I am so pleased and privileged that Mr. Mineta has joined us. He has expertise in the general area of transit, and specifically aviation safety. And we were fortunate to have him with us today.

Thank you, Mr. Mineta.

Before we close this hearing, I just have one comment to reiterate to you. In terms of transit, the President said it very well in his budget. He has shown his lack of interest in transit by approving budget cuts which can result in tremendous harm to transit systems and to highway programs. But he actually said in the budget, "Transit is not a Federal issue because the benefits accrue locally."

I think what we need to do is challenge that because that is absurd on its face.

We know, as Members of Congress, that for so many years we have talked about the importance of people getting out of their cars into buses, into trains, to reduce the use, for example, of gasoline. Now, we may not have long lines now, but we know we still have to be energy-efficient. After all, the Reagan administration is telling us they have to drill on our coast. So they still are taking the oil. At the same time, they are cutting these funds for transit.

I think, as Mr. Mineta pointed out, people who are isolated have to go to work, and they use transit. They are going to contribute to the tax base of this Nation. And, therefore, to say this is a local issue is nonsense. Like students who want to go to school to get their education so they can get a job and into the tax base. And to even assume that transit is not a Federal issue is incredible.

So I think what I would like to ask you to do—not now, because time is running out—is maybe focus on that question and to challenge that assumption, that transit is not a Federal issue. And for 10 days we will hold open the record; I would love to get some of your comments, and I will put them into this record because I know that you know even more arguments on this subject.

Mr. Mineta. Would the gentlewoman yield?

Mrs. Boxer. I would be happy to yield.

Mr. Mineta. Thank you. I think this is the key to the whole issue.

In the President's State of the Union Message, he talked about funding the hypersonic space plane. Getting from San Francisco to Tokyo, I think was his example, in 2 hours. We can't get across town in 2 hours. And who is that interested in getting to Tokyo in 2 hours? So I feel that Mrs. Boxer is absolutely correct.

Mrs. Boxer. Yes, indeed. We pointed that out in the beginning of the testimony that some of our constituents cannot get to work in an hour. And it seems to me an absurdity.

Well, we thank you all very much for your participation. The record will remain open for 10 days. If anybody has any further comments——

A Voice From Audience. Excuse me, Congresswoman Boxer.

Mrs. Boxer. Yes?

A Voice From Audience. There were a number of disabled people who came here today to talk about what the effects would be on them as human beings; that people are not going to be able to have care in the community, that disabled and elderly people are not going to have housing.

And I think that when you schedule some more of these hearings—we called George Miller's office three times—it is really important to have disabled and elderly people up here and talk about what is happening to them.

Mrs. Boxer. I would like to say that these issues were definitely covered in the opening statement; that Dr. Werdegar talked about——

A Voice From Audience. But we don't——

Mrs. Boxer. May I finish, please? OK.

You were certainly part of this hearing in every way since the time it started. Already we have run out of the time we have. The record will remain open for 10 days. I will personally ensure that your statements and comments are placed in the record. We appreciate your being here. We could not include every single person who asked to testify. We had 70 requests. We tried to get an overall picture as best we could.

Thank you for being here. We look forward to your testimony in writing. And we will try, as best we can, to meet the needs of all the people in this great Nation.

The budget hearing is adjourned.

[The following additional material was submitted for the record:]

PREPARED STATEMENT OF HON. SALA BURTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman, thank you for the opportunity to present my views to the committee. I am especially appreciative that you have come to San Francisco to hear what people in the Bay Area think of the President's budget. I regret that a bout with the flu has prevented me from being home and participating in this hearing.

As a member of the Rules Committee, I will work closely with you as the budget process proceeds. The new budget schedule established by Gramm-Rudman and the uncertainty caused by the recent court decision against the Gramm-Rudman trigger mechanism will make procedural determinations especially important this year.

Mr. Chairman, it has become a familiar routine in Washington: around February 1, the President submits a budget that asks for huge increases in defense spending, devastating cuts in domestic programs, and no new revenue measures. And, despite a lot of rhetoric from the White House about reducing the deficit, the end result is always the same: the federal deficit has increased sharply every year Ronald Reagan has been President.

Congress has had to impose sanity on the budget priorities presented by the President, although we have been unable to reach agreement on effective deficit-reducing measures. We will now be under enormous pressure, even if the Gramm-Rudman trigger mechanism is declared unconstitutional, to reach the deficit-reduction targets in that bill. We will have an even greater responsibility this year to ensure that the priorities of the federal budget are an effective and humane use of federal funds.

This budget is so unfair, so distorted in its priorities, that I could spend the entire day highlighting its most outrageous proposals. I will touch briefly on four items.

The middle class will find that this budget drops 1.3 million students from college financial aid programs, dashing the dreams of American parents and their children, and stunting the growth of this nation's future.

Budget cuts in school lunch and child nutrition programs come at a time when evidence is building that millions of children live in poverty, going hungry every day.

Budget cuts will virtually end acquisition of new parkland, result in less frequent maintenance and thus accelerate deterioration of national parks, and hamper efforts to protect parks from outside threats from pollution and development. Proposals to charge high fees for using the parks will limit access to those who can afford such fees.

In San Francisco, we have responded to the AIDS crisis swiftly and with all the resources at our disposal. But this is not just a local health problem; it is one only the federal government can respond to adequately. Yet this year's budget, while calling AIDS spending a "Priority Program," in fact reduces spending by $31 million from this year's level.

The list goes on—and I know the committee will be hearing today from many of those deeply affected by this budget. Again, I commend the chairman and members of the committee for their efforts and look forward to working with you in Washington to develop a viable alternative to this grossly unfair budget proposal.

State of California,
Governor's Office,
Sacramento, CA, February 14, 1986.

Hon. William H. Gray III,
Chairman, Committee on the Budget,
House of Representatives, Washington, DC.

Dear Mr. Chairman: As you proceed with your deliberations on the proposed 1987 Federal Budget, I want you and the other committee members to know that I strongly support the President's commitment to reduce and eventually eliminate the federal deficit without raising taxes.

Three years ago, we faced a serious deficit problem of our own here in California. We found that given the growth in revenues due to economic expansion we could balance the budget without raising taxes, simply by holding the line on spending.

We also discovered that this achievement would not have been possible without two very important tools: first, a provision in our constitution requiring a balanced budget; second, line-item veto authority for the Governor. In three years, I have used that authority over 1,200 times and saved California taxpayers over $2.8 billion. We have balanced the budget four years in a row.

Californians discovered one more fact about a balanced budget. By putting our fiscal house in order, we helped unleash a new surge of economic growth and confidence. This, in turn, has enabled us to make substantial improvements in education, public safety, job creation, mental health, toxic control, and other services for the elderly, poor, and disabled.

Seen in this light, balancing the budget, even if it requires some difficult spending decisions in the short run, proves to be a profoundly humane action. It will enable government to get on with the business of taking care of the people's needs. It will enable farmers and entrepreneurs to get on with their business of creating more jobs and prosperity for our people.

My administration is reviewing the President's proposal in detail. We may have additional constructive comments about individual areas. However, I am encouraged by preliminary reviews of the proposed budget which indicate that the combined public and private sectors of California will receive an increase in federal dollars in 1987.

In fact, lost in many reports about this budget is the fact that overall it contains a $14 billion increase in spending over the current year.

What the President is asking Congress to do is basically hold the line on expenditures. I don't think that is too much to ask. If you meet that challenge, those savings will be locked into place in ensuing years. Without further program changes you can reach the target of a balanced budget by 1991—just as the Gramm-Rudman-Hollings law you passed requires.

Californians expect Congress to meet this challenge. They remember well that in 1984, both candidates for President, both political parties, and virtually every candidate for the United States Congress proclaimed that no domestic problem and no domestic priority was more important to our nation's future than to balance the budget.

The time has come for Congress to prove it.

Most cordially,

George Deukmejian.

February 14, 1986.

To: U.S. House of Representatives, Committee on the Budget, U.S. Representative William H. Gray III, Chairman.

From: Lionel J. Wilson, Mayor of the City of Oakland.

The City of Oakland, along with over 90 other cities, faces a drastic reduction in its Community Development Block Grant (CDBG) funding. Oakland, specifically, faces a 31.11% cut which would reduce the City's CDBG budget from its present appropriation of $9,019,000 to $6,213,000.

If these cuts to the CDBG program are approved, cities across the nation will confront losses from which they may *never* recover.

In 1975, the CDBG program was initiated in Oakland. This funding has provided significant benefits to the Oakland community, especially its low and moderate income population.

In Oakland, we've used CDBG funds to support a myriad of critical community services which include: Child care services, commercial revitalization in neighborhoods, park renovation, curb cuts to provide access for handicapped, and numerous other vital programs.

With the proposed cuts, how will we be able to continue these services to the needy?

How do we explain to the recently employed, former welfare recipient that subsidized child care isn't there?

How do we explain to the low income minority homeowner that we cannot provide him with foreclosure counseling?

How do we explain to the community that there is no money available to support their parks, libraries, and community centers?

To give you an example of how we'll be hit by the proposed cuts, just one of our projects, a low interest loan program for low income homeowners to assist with renovations to their properties, has helped over 3,000 families improve their housing. Without this program, these families could not have afforded to improve their properties and instead would have continued to live in a substandard environment.

Fair is fair. To cut CDBG funding to the urban areas of this country means abandoning the revitalization trend that has begun to improve the quality of life for residents of our nation's cities. There is still much to be done.

Therefore, I, respectfully, urge you and your colleagues to support continued funding of the CDBG program at levels which will permit our cities to continue providing these sorely needed services.

Sincerely,

LIONEL J. WILSON,
Mayor.

SOLANO COUNTY,
Fairfield, CA, February 11, 1986.

Hon. WILLIAM GRAY,
Chairman, Congressional Budget Committee,
San Francisco, CA.

DEAR MR. GRAY: We strongly urge the House Budget Committee to restore five hundred million dollars of CDBG funds that have been deferred by the Office of Management and Budget.

This deferral of five hundred million dollars of CDBG funds would have a devastating effect on local services and projects. Block grant funds serve the needy, homeless, handicapped and low and moderate income families.

Very truly yours,

RICHARD BRANN,
Chairman, Board of Supervisors.

CITY OF VALLEJO,
Vallejo, CA, February 13, 1986.

WILLIAM GRAY,
Chairman, House Budget Committee,
San Francisco, CA.

Subject: Vallejo's Response to Proposed Cuts in CDBG Funds.

The City of Vallejo has participated in the Community Development Block Grant program since its inception in 1974. When the program was created, both the President and Congress pointed to the cities of the nation, as the level of government best prepared to deal with urban problems. The last twelve years have proved they were right. Local agencies have applied both energy and creativity in utilizing the funds made available from the federal government under this program. In Vallejo we have rehabilitated deteriorated parks, reconstructed streets, built a neighborhood facility, rehabilitated existing single and multi-family buildings, and encouraged in-fill construction on vacant city lots. We have also supported dozens of social service agencies engaged in such essential tasks as distributing food made available through the Department of Agriculture; assisting women and children who have been abused; identifying potential school dropouts so that counseling may be provided for both the youth and family; offering assistance to troubled children who seek respite from problems at home which might otherwise have led to running away; training developmentally disabled persons so they may be employed in meaningful and needed work. The list of critical services supported with CDBG funds is very long.

While elected officials of local governments share the concern of our representatives in Washington regarding the federal budget deficit, we believe we have already done our share. The funds authorized in the current federal budget for the CDBG program, represent approximately one and a half percent of the current deficit. It is a drop in the bucket to the President and his advisers at the Office of Management and Budget, but it is life blood to those of us in local government for whom the needy are not faceless statistics. They are human beings who stand before City Council asking for help with real life problems. I see them in my office every day.

CDBG is the program of last resort for cities such as Vallejo. We do not have the capacity to fund activities of the type listed above from general revenues. We need CDBG. We need support of Congress members to protect CDBG from further attacks by the Administration.

Today we need your help in overturning the President's deferral of $500,000,000. We also need your pledge that CDBG will be re-authorized this session of Congress. And finally, we need your support for maintaining funding for CDBG at a level which will enable us to continue our attempts to solve urban problems. May we count on you?

TERRY A. CURTOLA,
Mayor.

FEBRUARY 14, 1986.

Congressman BILL GRAY,
Chairman, Congressional Budget Committee,
San Francisco, CA.

DEAR CONGRESSMAN GRAY: I want to add my voice, along with many other concerned officials, in opposition to the proposed deferral order regarding Community Development Block Grant cuts in the 1987 budget.

CDBG funding is vital to my Senatorial District and to the State of California. This proposed cut would adversely impact upon programs of housing rehabilitation and meeting special housing needs, community centers, social services, child care, recreation, senior nutrition and senior day health care, substance abuse, mental health, and for runaway youths.

The Federal cuts cannot be made up by the cities, counties and the States. Although I recognize there is a Federal deficit, we cannot allow the Administration to reduce that deficit on the backs of those most in need.

Cordially,

MILTON MARKS,
Third Senatorial District.

CITY OF OAKLAND,
Oakland, CA, February 14, 1986.

DEAR REPRESENTATIVE WILLIAM GRAY: A number of factors have contributed to the fact that Oakland is now facing a 31.11% reduction in its FY 86 CDBG funding. If this occurs, many low to moderate income families will be the ones to suffer.

To illustrate my point, let me show you a few of the things we would *not* have accomplished in the last ten years if not for CDBG funding.

Over 3,000 low and moderate income families would not have received low interest loans or grants to rehabilitate their homes.

The City's Housing Counseling Department would not have helped over 86,000 people with their housing problems, including foreclosure counseling.

Approximately 1,000 families would not have had their properties painted free of charge and over 5,000 families would not have received free paint.

I realize the federal deficit is a problem we must deal with, but the cuts and sacrifices must be handled fairly. The CDBG program is too important to cast aside and I urge you to support the program in whatever way possible. Thank you for your time.

Sincerely,

MICHAEL DEAN,
Community Development Advisory Commission.

CITY OF OAKLAND,
Oakland, CA, February 14, 1986.

DEAR REPRESENTATIVE WILLIAM GRAY: As a member of the Oakland Community Development Advisory Commission, I have seen firsthand what a tremendous impact Community Development Block Grant funding has had on the Oakland community.

I have seen hundreds of new housing units built specifically for low and moderate income families, parks and playgrounds renovated where before there was just an empty lot, and libraries modernized to help educate our children.

Oakland now faces a 31.11% reduction in its CDBG funding. Almost one-third of its budget will be cut—one-third of a program that enhances the lives and well-being of this City's low and moderate income families.

Please help us in our efforts to save the CDBG program. We desperately need this program to continue the renovation of our city. Thank you in advance for your support.

Sincerely,

LILLIAN LOVE,
Community Development Advisory Commission.

CITY OF OAKLAND,
Oakland, CA, February 14, 1986.

DEAR REPRESENTATIVE WILLIAM GRAY: Oakland faces a serious situation. Because of the federal deficit, an OMB deferral order, and the Gramm-Rudman Act, Oakland could experience a 31.11% reduction in its Community Development Block Grant funding.

I feel this would be a terrible mistake. The CDBG program is extremely successful and greatly benefits Oakland's low and moderate income population.

While the main emphasis of the program is to improve the housing situation in the City, CDBG funding has also helped to improve Oakland's neighborhoods, enhancing the overall quality of life in the community.

Without the CDBG program, Oakland would lose much ground in its effort to revitalize itself. Therefore, I urge you to show your support for the CDBG program and work to save a project that benefits the citizens of this nation's cities.

Sincerely,

KIER TAYLOR, *Chairperson,*
Community Development Advisory Commission.

CITY OF OAKLAND,
Oakland, CA, February 14, 1986.

DEAR REPRESENTATIVE WILLIAM GRAY: Oakland is facing a 31.11% reduction to its Community Development Block Grant funding. If this reduction is approved, the impact on Oakland's low and moderate income population would be incalculable.

The CDBG program funds many housing improvement projects, primarily for low and moderate income families. A low interest loan program for housing rehabilitation, a housing counseling department, and a free paint program are several projects that have helped enhance the housing stock in Oakland.

In addition, CDBG funding has assisted in the economic renaissance of the City by providing low interest loans to businesses. These businesses, in turn, provide much needed jobs for Oakland's citizens.

Without CDBG funding, these programs would cease to exist. I urge you to use your considerable influence to save the CDBG program and preserve the continued revitalization of Oakland.

Sincerely,

HENRY CHANG,
Community Development Advisory Commission.

CITY OF OAKLAND,
Oakland, CA, February 14, 1986.

DEAR REPRESENTATIVE WILLIAM GRAY: I am a member of the Oakland Community Development Advisory Commission (CDAC). The CDAC is directly involved in the Community Development Block Grant program funding process and I am writing to you to garner your support for this most worthwhile program.

In FY 86, Oakland is facing a 31.11% reduction of its CDBG funding. This means one-third of those low income families who would have received loans to rehabilitate their properties will not be helped, one-third of those families our Housing Counseling program could have assisted will go unaided, and one-third of the renovations done to libraries, community centers and public service facilities will be left undone.

I have personally seen the number of people, predominately low and moderate income persons, that have been helped by the program. If this funding is cut, large numbers of people will indeed suffer and one more avenue of hope will be eliminated.

I now ask you to help us in our fight to save the CDBG program and pledge your support for this very worthwhile project. Thank you in advance for your assistance.

Sincerely,

Sam Caponio,
Community Development Advisory Commission.

City of Oakland,
Oakland, CA, February 14, 1986.

Dear Representative William Gray: Over the past ten years, Oakland's low and moderate income families have greatly benefitted from the Community Development Block Grant program.

We are now confronting the reality that the CDBG budget could be reduced by almost one-third, which would endanger the services made possible only through CDBG funding.

The CDBG program has enabled Oakland to run a very successful Housing Counseling Program. Our experienced housing counselors have effectively assisted over 86,000 people, many who have been saved from the terrifying consequences of foreclosure.

Organizations ranging from child care centers to job skill programs have benefitted from CDBG funding which enables them to continue providing vital services to the Oakland community.

And, of course, CDBG funding has greatly enhanced the housing situation in Oakland, especially for our low and moderate income residents.

Please act now to save this vital program. Any assistance and support you can give will be greatly appreciated.

Sincerely,

Rev. Herbert Guice,
Community Development Advisory Commission.

OCCUR,
Oakland Citizens' Committee for Urban Renewal,
Oakland, CA, February 14, 1986.

Dear Budget Review Committee Member: The list of attached groups have received grant and proposal training as well as non-profit fundraising instruction from OCCUR through the CDBG program.

These groups were contacted by OCCUR and join OCCUR in urging you to take all steps through the legislative procedures available to turn back proposed Block Grant Program Cuts.

The full impact of these cuts will be severely felt in every sector of the Oakland and East Bay community. The ability of many groups and organizations to make appropriate neighborhood improvements and ultimately gain self sufficiency will die if the CDBG cuts that we now face are implemented.

OCCUR and these groups desperately urge your understanding, support, assistance and Federal resistance!

Respectfully,

David Glover,
Director.

[The list referred to in the letter above may be found in committee files.]

HOUSING RIGHTS FOR CHILDREN PROJECT,
Oakland, CA, February 12, 1986

WILLIAM H. GRAY,
Chair, Members of Budget Committee.

MR. CHAIRMAN/COMMITTEE MEMBERS: We are writing in regard to the proposed 32 percent cut in CDBG funds allocated to the City of Oakland. Bananas, Inc./Housing Rights for Children Project has been funded by the City of Oakland (CDBG funds) since 1980. Our project is funded to enforce the anti-discrimination ordinances (against families with children in housing) in both Oakland and Berkeley. Our present allocation from Oakland is $24,800 and we have not requested an increase for three years. These funds served Oakland residents, for 1984-85, in the following distribution: Discrimination Complaints—92; Legal/General counseling—370; Shared Housing Services—340.

In addition to enforcing the law, we counsel clients regarding landlord/tenant issues, Public Housing procedures, evictions and referrals to community agencies and proper city departments. We also have shared housing listings and emergency housing referrals available.

Bananas/HRCP enjoys a good working relationship with Oakland Community Development office, accepting referrals from that department and seeking guidance from staff on housing issues. HRCP is also a member of Northern California Fair Housing Coalition. The Coalition (20 Fair housing agencies) is quite concerned about cuts in CDBG funding, because it is a major source of income for our agencies. A letter was sent to Secretary Pierce (HUD) regarding a change in statutory regulations governing CDBG funds, to allow funding of fair housing organizations from all CDBG funding categories. Presently, fair housing agencies are limited to public service and administrative categories. In Oakland, this is 20 percent of CDBG funds, creating a competitive situation for all agencies.

HRCP client characteristics for Oakland include: 88 percent female head-of-household; 62 percent AFDC recipients; 72 percent low-income; and 66 percent minority families. In light of the absence of any other community based agency (with the exception of Operation Sentinel which handles race, marital status cases) and an overload at Alameda County Legal Aid Society, HRCP is the only agency serving these important needs in Oakland.

We urge you to consider the impact of the proposed cuts in CDBG funding to Oakland. Clearly some very essential services would be lost, for the people who need them most.

Sincerely,

MARIANNE LAWLESS,
Project Director.
ARLYCE CURRIE,
Bananas' Program Director.

LANEY COLLEGE,
Oakland, CA, February 13, 1986.

U.S. Representative GEORGE MILLER,
Seventh Congressional District,
Federal Building, San Francisco, CA.

Re: House Budget Committee Hearings—February 14, 1986.

DEAR CONGRESSMAN MILLER: I am writing to urge repeal of the OMB deferral order of $500 million which drastically cuts the amount of Community Development Grant (CDBG) funds available for use in 1986. A cut in the CDBG program would result in the devastation of services to low and moderate income persons.

Laney Community College is currently building a three bedroom house with funds provided by the Housing Department of the Office of Community Development of the City of Oakland. This house will be sold to a low income family. This arrangement provides also an excellent opportunity to low income students to get practical construction training experience at no cost to the college. Laney College could not offer this program without the assistance of the City of Oakland Housing Department.

Sincerely,

MARCOS R. CONTRERAS,
Assistant Dean.

St. Mary's Community Center,
Oakland, CA, February 13, 1986.

Congressman George Miller,
House Budget Committee,
Federal Building, San Francisco, CA.

Dear Congressman Miller: I am writing to urge repeal of the OMB deferral order of $500 million which drastically cuts the amount of Community Development Block Grant (CDBG) funds available for use in 1986. A cut in the CDBG program would result in the devastation of services to low and moderate income persons.

I have been assisted by CDBG funds. St. Mary's Community Center has received funds for the rehabilitation of our Center and without CDBG this essential renovation could not have taken place.

Any cuts in the CDGB program would deeply affect the services rendered to Downtown/West Oakland elderly whom we serve.

Please act immediately to repeal the deferral order. Thank you for your understanding and support.

Sincerely yours,

Sister Baptista Dean, *Director.*

Community Adult Day Health Services,
Highland General Hospital,
Oakland, CA, February 13, 1986.

Representative George Miller,
House Budget Committee,
San Francisco, CA.

Hon. George Miller: I am writing to you on behalf of the Community Adult Day Health Services Center for disabled seniors, regarding OMB deferral order of $500 million dollars which would severely cut the amount of Community Development Block Grants (CDBG) available for use in 1986.

Our center has greatly benefitted by the availability of CDBG funds in that the funds were used to make the center accessible to the handicapped. As a result, we have been able to serve over 100 disabled seniors.

Representative Miller, I am asking you and your colleagues to rescind the OMB deferral order so that programs like CADHS will be spared the loss of funds so necessary for the care of the frail elderly.

Sincerely,

Joan O. Rahman,
Executive Director.

San Francisco Second District,
California Congress of Parents and Teachers,
San Francisco, CA, February 14, 1986.

Federal Budget Hearings,
San Francisco, CA.

Dear Legislators: As an organization that has been serving the needs of children and families since 1897, the members of PTA would like to bring certain educational and budgetary matters to your attention.

The first is the Equity and Choice Act (TEACH, H.R. 3821 and S. 1876), and its proposed use of vouchers in place of Chapter I compensatory education. Our San Francisco District PTA and the California State PTA oppose this bill because of the following concerns.

1. The bill would fragment a universally acclaimed federal program for disadvantaged students, thereby reducing program quality and accountability.
2. The plan would provide a channel for federal public monies that could be used by parochial schools for religious instruction as well as special instruction for disadvantaged students.
3. The plan would not provide choice to all parents because private schools could reject students on the basis of religion, income levels, nationality or other reasons. The choice, under those circumstances, is exercised by the schools and not the parents.
4. The plan would not enhance competition between schools, but would destroy competition by creating a two-tiered system of education, one public and one private, and establish unequal requirements. Public schools would be required to

adhere to all of the public mandates including equal access to public education, accreditation of schools, certification of teachers, and civil rights provisions. Nonpublic schools do not have to adhere to many of these requirements.

Vouchers should not be offered in place of compensatory Chapter I funding for educationally and economically disadvantaged children in the public schools. (Attached is a copy of the official California State PTA position paper on TEACH).

The second concern is the proposal to cut federal funds to school districts. In San Francisco's case, approximately 60 percent of federal funding received goes to programs of handicapped students. Any cuts would seriously impair services for these students in an already underfunded program.

Finally, last year a special appropriation for math/science education was allocated. This amount should not be put into another categorical budget, but should remain as a special and important educational priority for the federal government.

Thank you for your attention to these matters.

Sincerely yours,

BETTY N. ALBERTS,
President, San Francisco PTA.

PTA POSITION PAPER ON TEACH

The California State PTA, in conjunction with the National PTA, continues to oppose the concept of educational vouchers, including the newly proposed U.S. Department of Education Chapter I voucher program called The Equity and Choice Act of 1985 (TEACH).

As currently operated, the Title I/Chapter I program, which provides funds for economically and educationally disadvantaged children, is one of the nation's most successful educational programs.

TEACH would pay vouchers to parents of eligible students, on demand, from the local school district's annual Chapter I allocation. These monies could then be used to pay tuition at any public, private or parochial school. PTA believes the vouchers would establish a two-track educational system with public money.

Although public schools would still be required to meet all public policy mandates, including improved teacher certification standards, private and parochial schools would not be required to meet these standards. The California Education Code does not govern private and parochial schools.

The school district in which the student resides would be required to monitor the expenditure of the voucher monies by the parent. Districts would also be required to act as collection agencies for the federal government and recover the funds from parents if the voucher is incorrectly spent.

Public tax dollars would be used to support private schools and schools which give religious instruction. TEACH, as proposed, is nothing but a tuition subsidy.

(Additional information is available from the California State PTA and National PTA Offices.)

CITY AND COUNTY OF SAN FRANCISCO,
DEPARTMENT OF PUBLIC HEALTH,
San Francisco, CA, March 3, 1986.

Hon. BARBARA BOXER,
House of Representatives,
Cannon House Office Building, Washington, DC.

DEAR REPRESENTATIVE BOXER: I am writing in regard to President Reagan's proposed budget for Fiscal Year 1987.

As I stated before your committee, the proposed budget will have a serious negative impact on the well-being of San Franciscans. In this letter, I will concentrate on the potential effects on health care in San Francisco. However, it is my belief that the President's budget will adversely impact many other services and hit hardest at the poor and the middle-class.

I have summarized my general concerns regarding health care below:

Health Programs Funded Directly by the Federal Government—or jointly through the federal and state governments—will be cut or eliminated. These include significant elements of our AIDS program, grants projects for maternal and child health, and for refugee and family planning services. These programs often are the sole source of these forms of health care for the poor and indigent.

Funding augmentation for AIDS research, as well as funding for alternative site blood testing programs and AIDS service delivery demonstration projects authorized by Congress in FY 86 was sequestered or rescinded in FY 86 as a result of Gramm-Rudman. These programs are not funded in the President's budget. Also, Federal staff assigned to San Francisco AIDS programs may be recalled due to Federal staff reductions and/or possible reassignments resulting from federal personnel funding cuts. 1,734 people in San Francisco have been diagnosed with AIDS.

The President's budget eliminates funding for TB control categorical grants. In addition, the Refugee Preventive Health Program and the Preventive Health Block Grant funding is being reduced. Tuberculosis is a serious problem in San Francisco because of our large immigrant and refugee populations.

The budget proposes a slight increase in the Maternal and Child Health, Preventive Health, Alcohol, Drug Abuse and Mental Health Administration Block Grants. However, FY 86 funding was reduced by sequestration and recissions, and the restoration of these funds only reinstates funding to FY 85 levels. This means program cuts will be necessary in order to meet increased program costs, and program capacity and services will be reduced.

Once again, the Administration is attempting to consolidate community health centers, family planning, migrant health and black lung clinics funding into a Primary Care Block Grant to the states. This shift in responsibility and administration translates into decreased program funding and endangers the categorical funding now received in San Francisco which is directly targeted to community health centers and family planning services for low income people.

Funding will be cut for the care of veterans with nonmilitary connected illness or disability. This may mean some individuals who would receive preventive health care maintenance care or care for chronic problems will delay treatment for these problems which may then become acute.

ELIMINATION OF NONHEALTH PROGRAMS WILL ADVERSELY AFFECT THE PUBLIC HEALTH

For instance, elimination of funding for sewer construction will slow the City's Clean Water Program that ensures thorough sewage treatment and protection of the public health.

Elimination of transit subsidies will curtail public transportation services and make health care less accessible.

San Francisco has an increasing large homeless population with multiple social and health needs. $70 million was authorized in FY 86 for programs to assist the homeless. This amount is rescinded and not requested in the President's budget. In addition, this budget will severely cut the Community Block Grant Program which local governments could use to assist the homeless.

Finally, the cuts in monies provided to the City and County of San Francisco—for all purposes--will endanger the $90 million in local funding the City currently provides the Health Department. The Department needs this amount simply to maintain current services.

Cuts to Medicare, Medi-Cal or Other Entitlement Programs Will Further Endanger the Health of the Indigent, the Old, and the Disabled. Several cost containment measures in these programs have already been put in place by the State of California, through its Medi-Cal contracting program, and by the Federal government, through the Diagnostic Related Groupings (DRGs) applied to Medicare. In many cases these cost containment measures have led to reimbursements below actual costs and to private hospitals refusing to treat some Medi-Cal or Medicare patients. Any further cuts in Medi-Cal, Medicare, SSI or other programs will increase the uncompensated costs of health care provided by public hospitals and cause private hospitals to be even more reluctant to accept such patients. This policy is unfair and harsh. Moreover, it will lead to greater reliance on public hospitals rather than the increased use of the private sector that the President professes to support.

Increased out-of-pocket costs will force some, probably the most needy, elderly and poor people to forego or defer care. The increased payments required of Medicare patients and the institution of co-payments for home health care and outpatient surgery will increase the financial hardship on these elderly people.

The proposed cap on the Medi-Cal payment to States will undoubtedly lead to further reduction in State eligibility and coverage requirements.

Limits on Medi-Cal prescription drug reimbursement and mandatory second surgical opinion will also increase hardship for the poor people, whose access to care will be confined to those providers willing to adhere to these restrictions.

Cuts in Health-Related Research and Health Professional Training Will Be Deleterious. Advances in health care will be slowed and evaluation of existing and new approaches will be underfunded. The budget is consistent in its cuts to research in all areas of health including biomedical; alcohol, drug abuse and mental health;

AIDS; disease prevention; developmental disabilities; aging; child abuse and family violence research.

Our local County hospital and community based programs which serve the indigent rely in part on medical health providers who receive at least partial support through health professions education assistance and nurse training programs, health service corps scholarships, occupational health training demonstration funds and mental health clinical training programs. The major cuts or eliminations proposed in the President's budget to these programs would especially affect services to minority populations. These funds support minority professional who may be unable to pursue medical or health professional training without financial assistance.

INABILITY TO PLAN FOR EFFECTIVE HEALTH CARE DELIVERY

San Francisco has suffered from the progressive loss of Federal health planning funds. Local health planning agencies assist us to target resources to needy population groups and to plan programs to meet changing needs.

The President proposes severe and unprecedented cuts in health care funding. It is difficult to plan future services funding because the cuts proposed are so extensive, and because they are only proposed in the aggregate, without sufficient information to analyze the local impact.

In sum, in my judgment, the President's proposed budget would have deleterious effect on the health and welfare of San Francisco.

Sincerely,

David Werdegar, M.D., M.P.H.,
Director of Health.

Prepared Statement on Behalf of the Pacific Southwest Regional Council of NAHRO by William H. Garrett, Senior Vice President

Thank you for the opportunity to present our views on the proposed FY 1987 Federal Budget. This testimony is provided on behalf of the Pacific Southwest Regional Council (PSWRC) encompassing the states of Arizona, Nevada, California, Hawaii and the territories of Guam and the Marianas, of the National Association of Housing and Redevelopment Officials (NAHRO).

Careful review of the budget proposals for the U.S. Department of Housing and Urban Development (HUD) as reflected in the FY 87 budget identify reductions and elimination of housing and community development programs that demonstrate a total withdrawal of support by the administration for meeting the basic need of shelter by our nation's poor and revitalization of our cities.

The PSWRC wishes to state its strongest concern and opposition to these budget proposals. The current need for housing America's poor, elderly and lower income families has only intensified. These proposals renege on the country's commitment since 1937 to help the eligible poor in meeting their housing needs. We cannot endorse any budget proposals or other actions which reduce, defer, or sequester housing funds which would be administered by HUD now or through the end of the decade.

The basic need of shelter for the homeless, persons who tend to be young, single and often experiencing physical or mental illness has become a national concern. Withdrawal of housing resources as proposed in the President's FY 1987 budget will make the homeless issue pale with the number of elderly and poor families affected.

In California, approximately 196,500 households are currently receiving rental assistance through Section 8 certificate and voucher programs. There are in excess of 250,000 very low income families, or in excess of one million people, on waiting lists for these programs. At least as many cannot be placed on a waiting list due to the lack of public housing and the cutbacks in funding for housing through HUD since 1980. These prior reductions and proposed cuts in this budget also do severe damage in efforts to conserve earlier investments to public housing through the Comprehensive Improvement Assistance Program (CIAP), and housing rehabilitation programs that improve single and multifamily units affordable to lower income households. These improvements also help to prevent blight and foster community development efforts.

State and local governments are not able to provide the housing and community development funds which have been cut earlier and now proposed for further reduction or elimination. In California, Proposition 13 and other legislation restricts the ability to generate revenues which could be used to offset the proposed federal budget reductions. Regrettably, a portion of the proposed Tax Reform Act (HR 3838) also would restrict the State's ability to generate additional lower income rental housing units through tax-exempt bonds made through the State allocation formula which proposed. Additionally, HR 3838's provisions greatly reduce the opportunity to utilize tax increment financing which has been traditionally used in our region to develop private/public partnerships for the benefit and economic development of our communities in need of redevelopment programs. The loss of these tax-exempt financing are especially devastating because their use would otherwise help mitigate the problems brought about by the loss of monies now being proposed within the Administration's budget proposals.

The policy implications of the proposed cuts are innumerable. Cuts in the community development block grant program, for example, require reductions in neighborhood improvements, housing rehabilitation, public services and economic development.

Reductions in public housing operating subsidies and modernization funds may eventually lead to rent adjustments in the least and sale of housing authority units at the extreme.

The virtual freeze in Section 8 and cancellation of the subsidized housing and construction programs implies abandonment of our region's slim hopes of meaningfully addressing housing affordability and availability for the very low income.

The budget proposal which so greatly reduces the community development block grant program means that programs to provide infrastructure within our lower income neighborhoods, economic development incentives, a variety of housing related programs, and social service programs provided by many nonprofit organizations to our lower income families will be lost. This budget proposal, if enacted, will mean that the community development block grant program will have been reduced by 50% since 1980. Unfortunately, the needs have not dropped by the same proportion.

Rehabilitation goals will be seriously curtailed by the elimination of the Section 312 (housing rehabilitation) and rental rehabilitation block grant programs that some local communities have established.

In summary, we agree that actions to help reduce the country's budget deficits need to be taken. Housing and community development programs have, however, experienced too severe a reduction of funds since 1980 by this administration. Plans to meet those deficits at the state and local level by actions to help provide affordable housing and conserve or improve neighborhoods in conjunction with private enterprise and non-profit organizations can only succeed if the other partner, our federal government, upholds its earlier policy and funding commitment made prior to 1980. Overall, the proposed reductions in HUD funding implies serious policy and program modifications which will lead to staff reductions, considerable reductions in and/or elimination of programs which are desperately need to ensure that our citizens have a "decent, safe, and sanitary" place to live and communities which are viable and provide a "quality of life" of which we can be proud.

We therefore urge this committee to take all necessary actions to oppose the Administration's proposals as they relate to housing and community development programs. Targeting these important and already grievously reduced domestic programs above and beyond that which would automatically occur with the Gramm-Rudman-Hollings legislation is a doubly "whammy" which need not occur. We seek your assistance in countering the Administration's action and in formulating a budget that will provide for the housing needs of our lower income families and the revitalization and economic development of our cities.

PREPARED STATEMENT ON BEHALF OF THE CALIFORNIA STATE FEDERATION OF CHAPTERS, INC., NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES BY JOHN T. McCONATHY, FEDERATION PRESIDENT

The California State Federation of Chapters, Inc. of the National Association of Retired Federal Employees [NARFE] appreciates this opportunity to submit our comments on the Fiscal Year 1987 Budget Proposals with particular emphasis on the changes concerning civil service COLAs. We welcome the interest of the Budget Committee in exploring at the "grass roots" the concerns of thousands of older Americans who worked for the federal government. There are about 200,000 retired federal employees living in California of which 52,000 belong NARFE.

In its Fiscal Year 1987 Budget Proposals, the Reagan Administration has recommended the following two changes concerning civil service COLAs:

(1) Eliminate the COLA scheduled to become effective December 1, 1986 and payable in January 1987 annuity checks, this provision to effect both civil service and military retirement; and,

(2) Limit all future COLAs to 2 percentage points less than the rate of inflation measured by the CPI-W, this provision to apply only to the civil service retirement system, not the military retirement.

While the Gramm-Rudman-Hollings Law has already resulted in full suspension of the 3.1 percent COLA we were to receive in annuity checks beginning in January 1986, the automatic cutback procedures (sequestration) in that law threaten our COLAs for the next 5 years, while the social security COLA is specifically shielded from any cuts resulting from sequestration.

The President's fiscal year 1987 Budget assumes continuation of full CPI based Social Security COLAs.

Despite Administration rhetoric to the contrary, civil service benefits are modest and do not vary greatly from the retirement benefits of other career employees. As of October 1985, the average monthly annuity was $1,119 for retirees, and $423 per month for survivor annuitants. And, unlike social security benefits, these annuities are fully subject to taxation at all levels of government.

Federal retirees have had only one COLA since April 1983, and that was a 3.5-percent adjustment effective December 1, 1984. Yet between April 1983 and December 1985, the CPI-W rose 10 percent. And now in their fiscal year 1987 Budget the Administration is recommending that Federal retirees be denied any further inflation protection until January 1988, and then and thereafter advocate that the COLAs of civil service retirees and survivors be held at 2 percent less than the CPI-W measure of inflation. Using the Administration's own inflation projections, if the two COLA restrictions they are advancing are adopted, the civil service annuitant, in the 5 years between 1983 and 1988, will have suffered a reduction in the purchasing power of his or her annuity of 12.5 percent.

The 3.1-percent COLA that was scheduled to be paid in the January 1986 annuity checks was eliminated by the Gramm-Rudman-Hollings Amendment 3 weeks before it was to be paid, and after its December 1, 1985 effective date, setting an unprecedented rescinding of a benefit after its effective date which NARFE is now challenging in the courts under the expedited judicial process set up by the Gramm-Rudman-Hollings.

A study done last year for NARFE by an outside public policy consulting firm, shows that future application of COLA's based on the CPI minus 2 basis pushed by the administration would impose a severe reduction in the value of annuities. For the average 61-year-old male retiree, a CPI-2 based COLA implies a lifetime reduction of 16 percent in the value of the annuity.

Inflation does not discriminate against groups of older Americans; neither should the inflation protection for these individuals.

It is impossible for us (civil service retirees) to understand why we were denied the promised 3.1 percent COLA in our January checks while our neighbors who receive social security received that same promised COLA.

Federal retirees, like all Americans, are concerned about the nation's skyrocketing deficit which has resulted from seemingly unwise policy decisions of the past 5 years. Our concerns for the future of our children and grandchildren are as great as anyone's, and we are willing to do our fair share to control and reduce the deficit. But while we are willing to "share the pain," we resent being among the minority being asked to "bear the pain" of denied inflation protection while the commitment of such is kept for others.

The California Federation of Chapters of the National Association of Retired Federal Employees urges the Congress to reject the discriminatory and unfair COLA reductions recommended for Federal retirees in the President's FY '87 Budget. As the result of past budget reductions and most recently through the sequestration order of the Gramm-Rudman-Hollings Act our inflation protection has already been compromised considerably. If, in the future, Congress determines that full inflation adjustments are warranted for some, then that policy should apply to all retirees. And while strongly urging rejection of the '87 Budget's COLA cutback proposals, we also urge all Members of Congress to immediately act to cosponsor and support HR 4060, a bill recently introduced in the House by Representative Mary Rose Oakar to guarantee civil service annuitants their promised 1987 COLA and assure that they will not again be victims of blatant discrimination as they were when the Gramm-Rudman-Hollings Amendment abruptly cancelled the 1986 inflation adjustment. H.R. 4060 already has bi-partisan support of more than 50 cosponsors in the House.

PREPARED STATEMENT OF THE ALAMEDA HEALTH CONSORTIUM

The elimination of Revenue Sharing as a form of federal assistance to county government would have profound negative consequences in Alameda County for fifty (50) community-based organizations [CBO's] and the low-income communities they serve.

Alameda County has displayed strong leadership in being first among all counties nationwide in commitment of Revenue Sharing funding to community programs.

Alameda County's federal Revenue Sharing appropriations for the current fiscal year (FY 85-86) is $7,627,892. Revenue Sharing has already been reduced by 8.4% from last year's appropriation, based on cuts already made at the federal level.

Alameda County expends its entire Revenue Sharing appropriation in three program areas:

	Million
Public assistance (36 percent)	$2.741
Health care (49 percent)	3.735
Public protection (15 percent)	1.153

Of this funding, $6,114,963 or 80.2 percent is allocated to contracts for vital community health, mental health, alcohol and drug, social services and probation programs operated by private non-profit community based organizations. The balance is utilized to finance county-operated mandated social services. Alameda County began this commitment of Revenue Sharing funds to CBO's when the program was first instituted 14 years ago in 1972. If Revenue Sharing fund were eliminated, the survival of many, if not most, of these organizations would be in severe jeopardy.

Listed below is a summary program description of the uses of Revenue Sharing funding in each broad program area:

Alcohol and Drug—Funds to seven (7) community contractors that provide a range of alcohol and drug abuse services to Alameda County residents, including detoxification, outpatient, residential care, consultation, education, and referral.

Mental Health—Funds to nine (9) community contractors that provide counseling, day treatment services, adult and childrens' outpatient services, and referral services to Alameda County residents.

Community Health—Funds to seven (7) community clinics providing primary health care to indigent residents of Alameda County, to two (2) agencies serving the developmentally disabled, and to one (1) medical transportation agency.

Social Services—Funds to fifteen (15) community-based organizations providing emergency shelter, emergency food, protective services, aging services, and deaf relay services.

Probation—Funds to nine (9) community based programs. The six juvenile programs cover shelter care, counseling, delinquency prevention, and diversion services. The three adult programs consist of victim assistance and pre-trial diversion.

Program area	Number of CBO contracts	Annualized appropriation
Community health	10	$1,856,395
Alcohol and drug abuse	7	849,063
Mental health	9	720,415
Social services	15	[1]1,536,483
Probation	9	1,152,607
Total	50	6,114,963

[1] Social Services matches these funds with $5,620 in Aging funds and $24,328 in Child Abuse funds, for a gross allocation of $1,566,431.

Examples of the magnitude of services provided by community organizations in the most recent fiscal year with these funds include:

Seven community clinics under Community Health provided 29,335 medical visits and 10.423 preventive health visits to medically indigent residents of the County in settings that were geographically, culturally, and financially accessible.

Youth intervention programs under Alcohol and Drug provided individual, group, and family counseling sessions to 8,000 youth, and served 40,000 youth in community education, advocacy, and alternative activity programs.

Mental health community contractors provided approximately 50,000 units of service, comprised of 14,200 outpatient therapy visits, and 35,800 units of community service, advocacy, outreach, and education.

Emergency food programs under Social Services provided approximately 42,000 meals, as well as 30,400 emergency food packages for the hungry.

Alameda County has also used Revenue Sharing funds as match to leverage additional state and fiscal monies that are utilized for human services on the local level; for example, the Department of Social Services used Revenue Sharing to match federal funds.

All these services stand to be lost to residents of Alameda County if Revenue Sharing support is eliminated. Government funding to counties and community-based organizations from other sources has been substantially reduced, so the Revenue Sharing cuts would be extremely difficult to replace. Further, the community-based organizations funded by Alameda County Revenue Sharing have already sustained budget cuts from their other funding sources, and would be unable to sustain another round of cuts. Thus, the agencies' entire operations are in jeopardy, not only the portion directly supported by Revenue Sharing.

In sum, Alameda County has used its Revenue Sharing funds to meet community needs through a cost-effective strategy of contracting with community-based organizations which serves as a model to other areas of the nation. The network of community organizations supported by these funds can be preserved only if Revenue Sharing is reauthorized by the federal government.

PREPARED STATEMENT OF M. CATHERINE LYONS, VICE PRESIDENT, ON BEHALF OF THE NATIONAL ASSOCIATION OF GOVERNMENT GUARANTEED LENDERS, INC.

We are aware that even more so this year than in past years, you and your staff are inundated with correspondence and contacts opposing a great variety of Federal budget cuts as proposed by the Administration for Fiscal Year 1987. Sorting through priorities is obviously a herculean task, but such prioritization is of course a major responsibility of the Congress. As has happened before, the U.S. Small Business Administration and its small business loan guarantee programs are at the head of the Administration's Fiscal Year 1987 "hit list." As has been reported to Congress time and time again, the SBA's loan guarantee programs are a key element in the continuing vitality of the American economy. Please seriously consider the following facts:

As reported on the front page of the February 11, 1986, issue of The Wall Street Journal, a new nationwide Wall Street Journal/NBC News poll of the American public revealed that "Reducing spending on social programs for the poor and eliminating the Small Business Administration are each opposed by 69 percent."

According to a recent GAO survey of the nation's commercial banks, 30 to 40 percent of long term financing to small businesses in this country carry an SBA guarantee.

According to the same GAO survey, 13 percent of all small business loans were SBA guaranteed, 74 percent of SBA guaranteed loans were long term, while only 15 percent of non-guaranteed loans were long term.

As you know, SBA guaranteed loans are made with private money, not taxpayer's money. Access to capital for business growth and expansion is one of the most critical continuing problems for all small businesses. The SBA's loan guarantee program is one of the few effective tools that provides a small business with access to long term, reasonable cost financing. The SBA loan guarantee program encourages banks and other lenders to consider small businesses for competitive financing along with other larger and more mature potential borrowers. Without such access to reasonable cost capital, many thousands of deserving growing businesses and many hundreds of thousands of related jobs will disappear. Encouragement of the continuing development of the most creative, innovative, employment sensitive sector of the national economy through the retention and continuing improvement of the SBA will have a far more lasting and useful effect in reducing the Federal budget deficit than will any poorly advised, short-term savings that might result from the SBA's elimination.

Over two-thirds of your constituency oppose elimination of the SBA. The SBA's loan guarantee programs are a net revenue generator for the U.S. Treasury, and are a major factor in national employment retention and growth. In light of these facts, can you explain to us, and more importantly, to your entire constituency, why the SBA should be eliminated? We ask you to ensure that the SBA remains a key element in the continuing vitality of the American economy by opposing any elimination of the SBA and its programs of loan guarantees and advocacy.

PREPARED STATEMENT OF JOE C. THOMAS, EXECUTIVE DIRECTOR, ECONOMIC OPPORTUNITY COUNCIL OF SAN FRANCISCO

I would like to speak to you today regarding the need to maintain the funding for the Community Services Block Grant (CSBG) in the Fiscal Year 1987 Federal Budget, and to request your assistance on our behalf.

As you know, the Administration has proposed cancelling CSBG funding in 1987. The impact of this action on the local program in San Francisco would be disastrous, since our $788,500 in CSBG funding enables us to maintain many other programs which have little or no administrative funding, and would therefore have to be drastically cut or eliminated.

Since 1964, the Economic Opportunity Council of San Francisco has been the official anti-poverty agency for the City and County. Our current range of services, which have already been reduced in recent years, include the distribution of government surplus cheese, butter, and other items to over 50,000 needy households each month, and the provision of USDA-donated supplemental foods to more than 5,000 low-income mothers and their children under the age of five who have both an economic and medical need for these commodities. The total value of these foodstuffs is over $5 million a year.

EOC operates day care centers and State preschool programs throughout San Francisco, serving over 500 children and their families on a daily basis. This not only provides education for children; it allows parents to work or participate in job training.

We have provided senior nutrition programs for several thousand elderly each year, including congregate feeding programs, and currently, a home-delivered meals program in the Tenderloin District. Our National Council on the Aging-funded employment program currently employs 220 San Francisco seniors in community service and other projects.

EOC provides an intake system though a network of neighborhood service sites, places where community people can come to express their concerns and needs pertaining to poverty. Social service and government agencies in San Francisco provide information about their services to the community through our sites. More importantly, these sites deal with the poor communities' immediate needs: in recent years, when people have been burned out of their homes and had no other place to go, or evicted; or when a family or individual has arrived in the City with no food and no money, we have provided them with emergency shelter or with an emergency food box. In the last three years, we have provided over 600 boxes of food to needy people who were in emergency situations.

Finally, EOC also provides energy assistance by paying up to $300 on PG&E bills for 1,500 senior citizens, handicapped persons, and other low-income people in San Francisco each year; and insulating 700 houses a year for tenants and homeowners to cut down on PG&E bills.

All of these services, which are made possible because we are able to take our Community Services Block Grant funds and increase their value by four times, will be jeopardized and face elimination if our Block Grant funds are removed.

I would also like to point out that contrary to past Administration claims, the CSBG does not duplicate the services provided by the Social Services Block Grant. The fact of the matter is that CSBG program services are simply not provided by any other source.

We strongly request your support for the Community Services Block Grant Program.

Thank you.

PREPARED STATEMENT OF CARMEN E. TURNER, GENERAL MANAGER, WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

We are pleased to have this opportunity to present our views about the President's fiscal year 1987 budgetary proposals as they impact upon the Washington Metropolitan Area Transit Authority.

The administration's recent proposal to completely eliminate funding for WMATA during fiscal year 1987 is the latest blow to an historical partnership aimed at providing the Nation's Capital with quality mass transit services. With the greatest portion of WMATA's authorized and appropriated fiscal year 1985 funds being withheld by the Urban Mass Transportation Administration, and with the threat of effective impoundment of our authorized and appropriated fiscal year 1986 monies in the offing, an enormous financial cloud threatens the completion of a 30-year-old transportation dream for the Washington Capitol area.

OUR NATION'S SHOWCASE MASS TRANSIT SYSTEM

A Federal study in the 1950's recommended rapid rail transit for the Washington Area as a necessity. In the 1960's, the Federal Government joined the local jurisdictions of the National Capital region in a unique partnership committed to the design, construction, and operation of the Nation's finest rapid rail system. With 70 miles and 64 stations slated to be in revenue service by June, this program which has been supported by every administration since President Eisenhower, is almost 70 percent complete.

As with the rail systems of other major foreign capitals such as Paris, London and Moscow, our Metrorail has become the Nation's showcase system. Metrorail has enhanced the mobility of the millions of tourists who flock to the Nation's Capital each year. In fact, it is estimated that visitors to the capital region constitute up to 10 percent of Metro's daily ridership.

A superb example of an effective Federal-local partnership in action, Metrorail has long enjoyed administration, congressional, and local jurisdiction support. Passage of the Stark-Harris Act in 1980 authorized $1.7 billion for continued development. Adoption last year by the board of directors and the local jurisdictions of the fourth interim capital contributions agreement [ICCA-IV] set forth an orderly program for completion of 89.5 miles of the system with the remaining $960 million of these Stark-Harris Funds, as well as the continued commitment of local funding sources, providing a total resource pool of $1.2 billion.

The Federal Government's unique role in this system is understandable by its role as one of the major employers and land owners in the Washington metropolitan region. Approximately 350,000 Federal employees live in this area and benefit from the service Metro provides.

A REGIONAL SUCCESS STORY

While Metro has emerged as a model rapid rail system for the Nation, it has also evolved into an enormously successful regional enterprise. It enjoys unparalleled support from the citizens of the Washington area. The system is clean, safe, modern and efficient. Ridership levels are up dramatically with passenger trips exceeding 400,000 each weekday. Metrorail enjoys one of the highest revenue-to-cost ratios in the Nation with fares presently covering 68 percent of costs.

Metro is also big business for the Washington Metropolitan Area. Approximately 23,500 construction jobs are attributable to the system and related development, and some 55 percent of all new jobs in the region are now located near transit stations. Metro's construction program has already spurred an estimated $2 billion in private development, and at least $5 billion more is planned around Metro stations.

As an example, a recent study of the fiscal impact of Metrorail in Virginia indicated that development at Metrorail station sites will produce $660 million in additional State tax revenue by 1995. This study by Peat Marwick, Mitchell & Co., also stated that 34,000 new jobs, 15.7 million additional square feet of office and retail space, 2,300 additional hotel rooms and 8,800 new residential units will result from Metro construction.

LOSS OF FEDERAL SUPPORT THREATENS COMPLETION OF CRITICAL LINES

Metro has experienced prolonged and unnecessary delay in securing UMTA approval of Federal fiscal year 1985 project grants, thus suspending or delaying major construction tasks—this despite persistent efforts by metro to satisfy UMTA demands for negotiation of a full funding agreement and demonstration that the remainder of Stark-Harris funds would be utilized to construct operable segments. Though Congress approved $227 million in fiscal year 1986 funding, it is feared that some or all of these funds may be subject to effective impoundment by the administration. And despite numerous assurances that this administration was committed to an orderly and consistent appropriation of Stark-Harris funds, it has requested no construction funds from Congress for fiscal year 1987.

Despite the administration's prior pledge of support, elimination of any or all available Stark-Harris funds over these 3 years constitutes a serious abrogation of the partnership observed by every administration since Eisenhower's. It also threatens the completion of lines now under construction as well as almost 20 additional miles of the system which can be built with Stark-Harris funds.

The Metro Construction Program is at perhaps its most critical stage with segments either presently under construction, or contemplated for the near term, penetrating the most transit-dependent areas of the region. If the funding sought is not forthcoming, the inner-Green Line from Anacostia to U Street, the Yellow Line to Van Dorn, the outer-Green Line to Greenbelt, and the Red Line to Wheaton will not be completed. More than $536 million has been invested in this construction to date. Further delay in already appropriated funds will only serve to escalate construction costs. Total abandonment of the Federal commitment for fiscal year 1987 also jeopardizes the ongoing support of both local jurisdictions and major developers who have participated to date on the premise that the full 103-mile system would be realized.

But perhaps most significantly, to eliminate the long-promised and awaited Green Line will wreak havoc on a population that desperately requires access to the rail system to take advantage of employment opportunities presently beyond their reach. The combined effect of such job displacement, lost system construction jobs and related development projects could have a devastating impact on the economy and future of the city and surrounding areas.

WMATA IS KEEPING ITS COMMITMENT

This past year has been an outstanding success at the Transit Authority. Ridership has increased and reliability has improved. We operate the safest subway system in the United States. In the past year, we have placed emphasis on improving the information graphics and automatic fare collection equipment. The use of fiber optics for communications and automatic teller machines for passenger convenience are under study. High value automatic fare vendors are being introduced at high-volume stations. The quality and reliability of bus service in the region, and particularly in the District of Columbia, have been improved. We have emphasized increased productivity and reliability with an innovative quality assurance program, a major rehabilitation program for our aging fleet of buses, a new maintenance reporting system and an enlarged preventative maintenance inspection program. We have developed an annual bus procurement program that will enable us to sustain our current level of service to the public while we increase the number of lift-equipped buses and improve the reliability of the entire fleet.

WMATA's fiscal year 1987 operating budget continues our objective of improving service while controlling costs. This is the third consecutive WMATA budget that has not included a fare increase. We will be carrying more passengers on our buses while reducing our bus fleet size. We are opening 9 more miles of rail service to Vienna, Virginia this June. We are planning to extend Sunday rail service to midnight. We will continue our strong cost containment efforts. And we will continue our progress in absenteeism control, parts inventory control, and energy management. As a result, we expect to exceed our revenue/cost recovery goal of 50 percent. Metrorail fares covered 68 percent of the costs in October and November 1985, and rail and bus together achieve better than 50 percent cost recovery, one of the highest revenue-to-cost ratios in the country.

In summary, I want to reaffirm the strong commitment that the WMATA board of directors have to completion of the 103-mile Metrorail system. The local jurisdictions have honored—by timely payments—the longstanding covenant shared with the Federal Government concerning Metrorail construction. We are aware of the financial constraints placed on the administration in confronting the Federal deficit. However, eliminating the Metrorail Program entirely is a drastic step which would seriously jeopardize the construction of the rail system that serves the Nation's Capital. The funds that have been requested, $275 million in fiscal year 1987, represent the fifth year of funding under the Stark-Harris authorization bill passed in 1980. These funds are essential to our continuing construction effort and are a part of our longstanding partnership and agreement with the Federal Government.

Thank you for the opportunity to express our views.

PREPARED STATEMENT OF BILL HONIG, SUPERINTENDENT, CALIFORNIA STATE DEPARTMENT OF EDUCATION

Introduction

I am Bill Honig, Superintendent of Education, California State Department of Education (CSDE). Our Department, along with over 1,000 school districts is responsible for educating four and one-half million students in kindergarten through 12th grade. I thank the Committee on Budget for the opportunity to submit written testimony on the impact of the President's FY 1987 Budget proposals for elementary and secondary education.

Overview

The President's FY 1987 Budget includes, for the seventh consecutive budget proposal, very large reductions in funding for Federal education programs.

Overall for the U.S. Department of Education, the FY 1987 Budget calls for a $3.2 billion, or 17.5% reduction from the FY 1986 appropriated level (pre Gramm Rudman). For elementary and secondary programs, this translates into a reduction of $735 million, or 9.6% from the FY 1986 appropriated level. These reductions include the FY 1986 Gramm-Rudman cuts, the President's proposed FY 1986 rescissions, and the proposed FY 1987 cuts. Ten programs would be terminated entirely, while major reductions would occur in vocational education, impact aid, and the handicapped. Other programs would be held at their post Gramm-Rudman FY 1986 levels.

As a recent Congressional Research Service report indicates,

> "In the past, Congress has consistently provided more funds for ED programs than had been requested by the Administration. Total Federal funds for these programs increased from $14.5 billion in FY 80 to $17.8 billion in FY 86, an increase of nearly 23%. The rate of increase over these years, however, has not kept pace with the rate of inflation, so that in 'real' terms the funds for ED programs have decreased by 16% between these years. After adjusting for inflation, the FY 87 budget request represents a decrease of nearly 18% below the post-sequestration funding level for FY 86 and a 31% decrease from the FY 80 appropriation."[1]

In other Federal agencies, a $70.1 million FY 1986 rescission, and a $775 million FY 1987 reduction are proposed for child nutrition and special milk programs. Other proposed cuts or terminations affecting elementary and secondary education are found in forest reserve receipts, the Job Training Partnership Act, the schools and hospitals energy conservation program, the refugee education program and Head Start.

These reductions in education compare to similar decreases proposed for other domestic programs, while military defense programs would receive an additional 8% above a 4% inflationary increase. While we are sympathetic to the need to balance the federal budget, and are willing tc do our share in helping the nation through this fiscal plight, the budget as proposed is not equitable.

[1] CRS Report No. IB86032 Update, 2/14/86.

Attachment A outlines in more detail the proposed FY 1986 rescissions and the FY 1987 budget for Federal programs affecting elementary and secondary education programs.

Impact on California

Overall, the cumulative effect of reductions under Gramm-Rudman, the President's proposed FY 1986 rescissions, and the FY 1987 Budget in the programs described in Attachment A is an estimated total decrease of $152 million in California, as compared to FY 1986.

Attachment B provides in detail the estimated funding reductions by program for California. The FY 1986 appropriated level is compared to the FY 1986 revised (post Gramm Rudman and proposed rescissions) and the FY 1987 proposed levels.

Critical programs which provide meals for needy students, allow handicapped students to participate in regular classrooms, and provide vocational learning experiences for thousands of students will be severely affected. The estimated losses for California in 1987 in these programs would equal $7.1 million for Handicapped Education, a 6.4% loss; $37.2 million for Vocational Education, a 52.5% loss; $47.6 million for Child Nutrition programs, a 9.5% loss; and $9 million for impact aid.

For the child nutrition programs, Attachment C provides a detailed anaylsis of the budget impact both in terms of funding levels and program. When comparing against the FY 1987 level projected under current law, the President's Budget proposal would result in a $47.6 million loss in FY 1987. Approximately 914,810 children would be eliminated from five programs and another 1,176,029 children in the free and reduced price category would have their cash assistance eliminated under the National School Lunch Program and the Child Care Food Program. Child nutrition programs experienced a severe budget cut in 1981, 12 times greater than its proportionate share of the Federal budget. These programs have already contributed more than their fair share to reducing the Federal deficit.

Another significant loss would be in the Chapter 1 Migrant education programs. Although Chapter 1 is proposed to receive the same level as the FY 1986 appropriated, a shift is proposed within the program. Nationally, the migrant education program would be reduced $62 million, while the LEA grant would be increased $61 million and evaluation $1 million. The change in the migrant program assumes Congressional enactment of legislation to reduce the time a migrant child is considered "migrant". This would result in a loss of $19.2 million and in the elimination of 31,000 migrants from the program in California. The supplemental services provided under this program help in decreasing the gap in educational growth and development suffered during migratory years. Past studies have shown that without such services the dropout rate may increase.

California receives nearly 40% of the combined immigrants and refugees to the United States, much of which occurs as a reult of Federal policies. The new families place an increased demand on school districts for many special education and social services to assist in their transition. The two Federal programs designed to assist school districts to meet this need would be eliminated: emergency immigrant education assistance and the transition program for refugee children. The total loss for California would be $19 million, eliminating the only support available for buildings, transportation, health and social services to approximately 112,500 children.

It is encouraging that the President's budget proposes $75 million for new reform legislation for teacher training and the improvement of the teaching profession. However, this is more than offset by reductions in P.L. 98-377, the Education for Economic Security Act, which provides support for math, science and foreign languages, and the elimination of both the Leadership in Education and Administrative Development (LEAD) and the Carl D. Perkins Scholarship. California is facing one of the most severe teacher shortages in its history, with a need to hire 100,000 new teachers in the next five years. A reduction in Federal support for teacher training at this time will severely set back our efforts in this critical area.

Conclusion

Our national security is dependent on a strong educational system. The protection of our freedoms, our people, and our nation depends not only on a solid defense program, but also on a well educated citizenry. If we are to stay competitive in an increasingly complex world market, if our young people are to have equal opportunities with young people from other countries, and if students are to learn to respect our democracy and our heritage, we must provide the best possible education.

Gramm-Rudman and the President's proposals would initiate a series of reductions which by 1991 could seriously curtail the Federal role in education. Historically education has been a local operation, a state responsibility, and a Federal concern. Federal education programs have provided the marginal resources necessary to assist state and local efforts in providing equal educational opportunity to all students.

In recent years states have proven that they are doing their part in providing both the leadership and the resources to accomplish the established need for education reform. It is not only unfair, but potentially damaging to our progress, for the Federal government to pull out needed support. Federal education assistance continues to be critical to California at this time when educational reform, increased enrollments, and teacher and facilities shortages are absorbing all available state and local resources.

ATTACHMENT A

202/638-0200

CALIFORNIA STATE DEPARTMENT OF EDUCATION
444 N. Capitol St., N.W., Suite 214 · Washington, D.C. 20001

HIGHLIGHTS IN BRIEF
PRESIDENT'S FY 1987 BUDGET PROPOSALS
ELEMENTARY AND SECONDARY EDUCATION

The President's FY 1987 Budget includes, for the seventh consecutive budget proposal, very large reductions in funding for Federal education programs.

Overall for the U.S. Department of Education, the FY 1987 Budget calls for a $3.2 billion, or 17.5%, reduction from the FY 1986 appropriated level. For FY 1986, in addition to the $678 million (4.3%) required to be sequestered under Gramm-Rudman by March 1, 1986, the President proposes that a $1 billion rescission be enacted by Congress in the next 45 legislative days. The combined Gramm-Rudman and rescission reductions would result in a total USED decrease for FY 1986 of $1.7 billion, or 9.2%. From this revised FY 1986 level, the President's Budget would reduce funding for FY 1987 an additional $1.5 billion for a combined FY 1986-87 cumulative loss of $3.2 billion.

These reductions compare to similar decreases proposed for other domestic programs, while military defense programs would receive an additional 8% above a 4% inflationary increase.

The following provides a brief summary of the proposals affecting elementary and secondary programs in various Federal agencies.

U.S. DEPARTMENT OF EDUCATION

For elementary and secondary programs, the FY 1987 Budget proposes a cut of $735 million, or 9.6% from the FY 1986 appropriated level. For FY 1986, the combined Gramm-Rudman and rescission decrease would equal $652 million, or an 8.5% reduction from the FY 1986 appropriated level. (Note: If all of the proposed reductions for FY 1986 were to be enacted, the reduction under the FY 1987 request would be $83.4 million, or 1.1% from the revised FY 1986 level.)

Table A summarizes the elementary and secondary program for which FY 1986 rescissions are requested in addition to the Gramm-Rudman cuts. In USED, these include eight elementary/secondary programs totaling $313 million, which combined with Gramm-Rudman would suffer a loss of $413 million, or an average 18%. Five would be terminated entirely. In addition, LSCA (libraries) would receive an accumulated loss of $31.5 million in FY 1986, or 26%, and the Perkins Scholarship and the Migrant High School Equivalency Program would be terminated.

Table B illustrates the major changes in elementary/secondary programs for FY 1987, as compared to the FY 1986 appropriated level. Ten programs would be terminated entirely, while major reductions would occur in vocational education, the handicapped, and impact aid. Programs not listed would receive the same level as appropriated in FY 1986.

It is important to note, however, that although Chapter 1 would receive the same level as FY 1986 appropriated, a shift is proposed within the program. The grants to LEA's would increase $61 million, and evaluation $1 million; the state agency migrant program would be reduced $62 million. The change in the migrants program assumes Congressional enactment of legislation to reduce the time a migrant child is considered "migrant". However, the Chapter 1 authorization is not scheduled to be considered in Congress until next year.

Several other proposals are important to highlight:

-- In bilingual education, USED will seek enactment of legislation to repeal the 4% limitation on funding for special alternative instructional programs;

-- A legislative proposal will be sent to Congress to revamp the Indian Education Act and the Department of Interior's Johnson O'Malley Act, and create a new State Formula Grant Program;

-- A Teacher Training and Improvement Act will be proposed to replace the current Math/Science program and expand and strengthen all disciplines of the teaching and school administration professions;

-- In vocational education which would receive a drastic reduction in FY 1986 and FY 1987, the Administration is emphasizing that funds be spent on disadvantaged populations and be concentrated on core curriculum rather than general vocational education programs.

-- In Adult Education, a $2 million increase is proposed for nationally significant research, development, and evaluation projects, particularly in adult literacy;

-- Legislation will be resubmitted to allow for tuition tax credits; and

-- A $10.6 million increase is proposed for education research and improvement under the National Institute of Education.

U.S. DEPARTMENT OF AGRICULTURE

Nutrition Programs

Once again, the Child Nutrition and Special Milk Programs are proposed to be drastically cut i~ FY 1987. The FY 1987 request for Child Nutrition is for a reduction of $775 million or 17% below the FY 1987 current level estimate. For Special Milk, the FY 1987 proposal is for a reduction of $14.9 million, or 91% below the FY 1987 current level estimate.

The following legislative changes are proposed for FY 1987:

-- Eliminate cash and commodity subsidies for those children whose family's income exceeds 185% of the poverty index (Section 4 funding for the paid child);

-- Increase the commodity rate to 24 cents for the free and reduced price child and eliminate the 12 cents cash reimbursement for the free and reduced price child (Section 4);

-- Eliminate Nutrition Education and Training Program;

-- Eliminate the Summer Food Service Program for Children's administrative reimbursement to sponsors and lower the meal reimbursement rates to equal those of the National School Lunch Program;

-- Eliminate the Child Care Food Program 2% audit funds for state agencies to conduct audits. Also, institute a means test requirement for the Family Day Care Homes;

-- Lower the State Administrative Expense budget amount by $19.6 million in order to recoup previous year's unallocated funds.

-- Eliminate the Special Milk Program for all children whose family's income exceeds 130% of the poverty index (only children who qualify as free will be eligible for the Special Milk Program).

For FY 1986, legislation will be proposed to eliminate the Federal subsidy to non-needy participants in Child Nutrition (-$66.6 million) and Special Milk Programs ($-3.5 million), for a total reduction of $70.1 million. This reduction is proposed to take effect during the months of July 1 - September 30, 1986.

Timber Sales

The President's FY 1987 Budget proposes once again to reduce the amount of Forest Reserve receipts paid to States for distribution to the counties where the receipts originated, to be used for roads and schools. The proposal is to calculate each State's payment on a net receipts basis, instead of a gross receipts basis. All the direct costs of managing the receipt generating programs plus such indirect costs as protection of forest lands from fire and insects are deducted from total receipts generated in each State before determining the amount due to the State.

Under existing legislation, FY 1987 payments would be $309.7 million. The net receipts proposal would reduce them to $84.9 million, a 73% decrease.

DEPARTMENT OF LABOR

Under the Job Training Partnership Act, 8% of the State Block Grant is earmarked for education programs.

The FY 1986 appropriated level for block grants is $1.863 billion, of which $80 million will be reduced by Gramm-Rudman, leaving a revised total of $1.783 billion.

The President's FY 1987 proposal is $1.820 billion, $43 million or 2.3% below the FY 1986 appropriated level.

DEPARTMENT OF ENERGY

The Schools and Hospitals Energy Conservation Program would be eliminated in FY 1987.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Refugee Education

Educational assistance ($16.6 million) under the Refugee and Entrant Assistance Program is proposed to be eliminated by rescission in FY 1986, and zero funding for FY 1987.

TABLE A

U.S. DEPARTMENT OF EDUCATION
PROPOSED FY 1986 RESCISSIONS
EL/SEC EDUCATION PROGRAMS
(Dollars in Thousands)

U.S. Dept. of Education	GR-I	RESCISSION	TOTAL	% REDUCTION
El/Sec. Programs				
LEAD	$ 323	$ 7,177	$ 7,500	100%
Excellence in Ed.	108	2,392	2,500	100
Women's Ed'l. Equity	258	5,742	6,000	100
CRA-IV	1,032	6,968	8,000	33
Follow Through	323	7,177	7,500	100
Immigrant Ed.	1,290	28,710	30,000	100
Ed. for Hand.	60,664	44,364	105,028	7
Voc. Ed.	36,535	210,337	246,872	29
El/Sec. Subtotal:	$100,533	$312,867	$413,400	18%
Other Programs				
LSCA (Libraries)	$ 5,182	$ 26,318	$ 31,500	26%
Perkins Scholarships	430	9,570	10,000	100
Migrants*	271	6,029	6,300	100

*High School Equivalency Program for Migrants (HEA IV-A-5)

TABLE B

U.S. DEPARTMENT OF EDUCATION
PROPOSED CHANGES FOR FY 1987
EL/SEC PROGRAMS COMPARED TO FY 1986 PRE-GRAMM-RUDMAN LEVEL
(Dollars in Thousands)

U.S. Dept. of Ed.	Change	% Change
Impact Aid	$ - 144,500	- 21%
Teacher Training	+ 75,000	+ 100
Math/Science	- 45,000	- 100
LEAD	- 7,500	- 100
Excellence in Ed.	- 2,500	- 100
Women's Ed'l. Equity	- 6,000	- 100
CRA-IV	- 24,000	- 100
Follow Through	- 7,500	- 100
Indian Ed.*	+ 8,658	+ 13
Bilingual Ed.**	+ 3,836	+ 3
Immigrant Ed.	- 30,000	- 100
Ed. for Hand.	- 107,310	- 8
Voc. Ed.	- 441,526	- 52
Adult Ed.	+ 2,037	+ 2
Migrants***	- 6,300	- 100
Perkins Scholarships	- 10,000	- 100
LSCA (Libraries)	- 120,500	- 100
NIE	+ 10,600	+ 18

*The increase in Indian Education results from a proposed shift in responsibilities from Dept. of Interior to USED. No net increase.

**The increase in Bilingual Education results from the termination of bilingual vocational training shown in this year's USED tables under Voc. Ed. No net increase.

***High School Equivalency Program for Migrants (HEA-IV-A-5)

ATTACHMENT B

CALIFORNIA
FEDERAL ELEMENTARY/SECONDARY EDUCATION FUNDS
ESTIMATED IMPACT OF BUDGET PROPOSALS
FISCAL YEARS 1986 AND 1987
(Dollars in Thousands)

	(1) FY '86 Estimate*	(2) FY'86 Post GR-I(4.3%)	(3) FY '86 Revised Request (1)	(4) FY '86 Decrease (Col. 1-3)	(5) FY '87 Budget Request	(6) FY '87 Change (Col. 1-5)	(7) FY '87 % Change (Col. 1-5)
Dept. of Education							
ECIA Ch. 1	$ 381,271	$ 364,876	$ 364,876	$ 16,395	$ 362,095 (2)	$ -19,176	- 5.0%
ECIA Ch. 2 (3)	48,018	45,953	45,953	2,065	48,018	------	.0
*Impact Aid (4)	65,000	63,000	63,000	2,000	56,000	- 9,000	- 13.8
Bilingual Ed.	23,669	22,651	22,651	1,018	23,669	------	.0
Handicapped (5)	110,325	105,580	103,084	7,241	103,273	- 7,052	- 6.4
Vocational Ed. (6)	70,819	67,774	50,041	20,778	33,644	-37,175	- 52.5
Adult Ed.	8,135	7,785	7,785	350	8,138	+ 3	.0
Indian Ed.	4,153	3,974	3,974	179	4,679 (7)	+ 526	+ 12.7
*Civil Rights (CRA-IV)	1,659	1,588	1,106	553	0	- 1,659	-100.0
Follow Through	920	880	0	920	0	- 920	-100.0
*Women's Ed. Equity	583	558	0	583	0	- 583	-100.0
Immigrant Ed.	14,229	13,617	0	14,229	0	-14,229	-100.0
Magnet Schools	5,207	4,983	4,983	224	5,207	-----	.0
Science & Math	3,892	3,725	3,725	167	0	- 3,892	-100.0
Teacher Training (8)	-----	-----	-----	-----	5,913	+ 5,913	+100.0
Excellence in Ed.	N.A.	N.A.	N.A.	N.A.	0	N.A.	-100.0
LEAD	N.A	N.A.	N.A.	N.A.	0	N.A.	-100.0
Subtotal, El/Sec.:	$ 737,880	$ 706,944	$ 671,178	$ 66,702	$ 650,636	$ -87,244	- 11.8
*Libraries(LSCA)	$ 10,580	$ 10,125	$ 8,304	$ 2,276	$ 0	$ -10,580	-100.0
SUBTOTAL, DEPT. OF ED.:	$ 748,460	$ 717,069	$ 679,482	$ 68,978	$ 650,636	$ -97,824	- 13.1

	(1) FY '86 Estimate*	(2) FY'86 Post GR-1(4.3%)	(3) FY '86 Revised Request(1)	(4) FY '86 Decrease (Col. 1-3)	(5) FY '87 Budget Request	(6) FY '87 Change (Col. 1-5)	(7) FY '87 % Change (Col. 1-5)
Dept. of Agriculture							
*Child Nutrition	$ 418,404	$ 418,404	$ 409,657	$ 8,747	$ 445,970	$ - 47,629(9)	- 9.5
Dept. of HHS							
*Refugee Ed.	$ 4,676	4,475	0	4,676	0	- 4,676	-100.0
*Head Start	$ 99,496	95,218	95,218	4,278	98,457	- 1,039	- 1.0
Dept. of Energy							
*Schools & Hospitals Energy Cons. Program	$ 941	901	901	40	0	- 941	-100.0
Dept. of Labor							
JTPA(10)	$ 16,069	15,168	15,168	901	15,702	- 367	- 2.3
GRAND TOTAL:	$1,288,046	$1,251,235	$1,200,426	$ 87,620	$1,135,570	-152,476	- 11.8%

Footnotes

(1) Col. 3 reflects the FY '86 levels after deducting the Gramm-Rudman cuts and proposed FY '86 rescissions.

(2) Although the FY '87 Budget for Chapter 1 provides for the same overall level nationally as FY '86, there is a proposed increase in LEA grants of $61 million and a decrease in the migrant state agency program of $62 million. This shift would result in a reduction in California's allocation.

(3) State block grant only.

(4) Includes "A" and "B" payments only.

(5) State grants and pre-school incentive grants only.

(6) Basic and Homemaker grants.

(7) This estimate is based on current legislation. The new legislation to be proposed is not yet available for analysis, and will change California's share of the program.

(8) New legislation to be proposed in 1986. FY '87 funding level for California is still $2.7 million below $8.6 million received under Math/Science for FY 1985.

(9) The loss shown is compared to $498,500 thousand projected for California in FY 1987 under current law. The column 5 total is adjusted for comparability.

(10) Includes only amount from block grant going to CSDE (8%).

* Programs with an asterisk are current year funded; funds are available for school year 1985-86. The remainder of the programs are forward funded, available for school year 1986-87.

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ATTACHMENT C

CALIFORNIA STATE DEPARTMENT OF EDUCATION
CHILD NUTRITION AND FOOD DISTRIBUTION DIVISION

FEBRUARY 19, 1986
CORRECTED ON 2/26/86

PROPOSED 1987 PROGRAM LEVEL

Program	Current Law	Proposed Legislation
Child Nutrition Programs:		
Cash Grants to California:		
School Lunch Program:		
Section 4	$ 59,351,771	$ 5,046,285
Section 11	272,875,869	272,875,869
School Breakfast	59,833,033	59,087,040
State Administrative Expense	4,900,302	Unable to measure
Summer Food	California does not administer this program	
Child Care Food	53,017,854	48,429,434
Total Cash Grants to California	$449,978,829	$385,438,628
NETP	$ 421,942	-0-
Commodities	46,399,334	59,902,374
Total Child Nutrition Programs	$496,800,105	$445,341,002
Special Milk Program	$ 1,700,000	$ 629,455
Total Food & Nutrition Services	$498,500,105*	$445,970,457

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*Total $498,500,105 should exclude $4,900,302 SAE projected under current law. The loss to California is $47,629,346.

CALIFORNIA STATE DEPARTMENT OF EDUCATION
CHILD NUTRITION AND FOOD DISTRIBUTION DIVISION

FEBRUARY 19, 1986

PROPOSED 1987 FEDERAL BUDGET CUTS
IMPACT ON CALIFORNIA CHILD NUTRITION PROGRAMS

Proposed Cuts	% of Participation	Children Impacted	Fiscal Impact	Fiscal Program Totals
A. **NATIONAL SCHOOL LUNCH PROGRAM** (NSLP)				
Scope of Program				
Total Number of Sponsors 1,149 *Total Number of Lunches Served Each Day 1,823,304*				
1. Eliminates the cash and commodity assistance to the paying child (child whose family's income exceeds 185% of the poverty index)[1]	35% of NSLP	705,815 ADP[4] (average daily participation)	Loss $40,807,683	
2. Eliminates the base cash assistance to children eligible for free and reduced price meals	65% of NSLP (58% free; 7% Reduced)	1,117,489 ADP	Loss $33,270,958	
3. Increases cash commodity assistance to children eligible for free and reduced price meals			Gain $32,605,186[2]	
Total Loss to NSLP				$41,473,095[2]
B. **SCHOOL BREAKFAST PROGRAM** (SBP)				
Scope of Program				
Total Number of Sponsors 656 *Total Number of Breakfasts Served Each Day 407,168*				
1. Eliminates the base meal cash assistance to the paying child (child whose family's income exceeds 185% of the poverty index)[1]	9% of SBP	38,474 ADP[4]	Loss $ 745,993	
Total Loss to SBP				$ 745,993

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Proposed Cuts	% of Participation	Children Impacted	Fiscal Impact	Fiscal Program Totals
C. CHILD CARE FOOD PROGRAM (CCFP)				
Scope of Program				
Total Number of Sponsors: Centers: 498 with 1,370 sites; *Family Day Care Homes: 80 with 9,239 homes* *Total Number of Lunches Served Each Day 105,050* *Total Number of Breakfasts Served Each Day 73,412*				
1. Eliminates the cash and commodity assistance to the paying child (child whose family's income exceeds 185% of the poverty index)	24% of CCFP (Centers Only)	46,510 ADP[4]	Loss $ 2,802,564	
2. Eliminates the base cash assistance to children eligible for free and reduced price meals	76% of CCFP (59% Free, 17% Reduced) (Centers Only)	58,540 ADP	Loss $ 2,405,652	
3. Eliminates the special fund for state Child Care Food audits. Approximately 450 of the 578 CCFP sponsors would go unaudited according to the organization-wide audit requirement because CCFP is the only source of federal funds.			Loss $ 805,151	
4. Requires an income eligibility test for participants in Family Day Care Homes. While the exact impact cannot be determined at this time, there are currently 48,288 children in participating Family Day Care Homes.			No way to measure fiscal impact	
5. Increases cash commodity assistance to children eligible for free and reduced price meals			Gain $1,376,596	
Total Loss to CCFP				$ 3,917,771
D. SPECIAL MILK PROGRAM (SMP)				
Scope of Program				
Total Number of Sponsors 545				
1. Eliminates the cash assistance for milk served children whose family's income exceeds 130% of poverty index		62,605 ADP[4]	Loss $1,070,545	
Total Loss to SMP				$ 1,070,545

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Proposed Cuts	% of Participation	Children Impacted	Fiscal Impact	Fiscal Program Totals
E. NUTRITION EDUCATION AND TRAINING PROGRAM (NETP)				
Scope of Program *Total Number of Local Training Grants 78* *Nutrition Education Serves Through Mini Grant Programs: 96,000 Children 79,016 Adults*				
1. Eliminates the Nutrition Education and Training Program (NETP). To date, more than 24,000 Nutrition Education curriculum guides and resource manuals have been published and distributed.		96,000[4]	Loss $ 421,942	
Total Loss to NETP				$ 421,942
F. SUMMER FOOD SERVICE PROGRAM				
1. Eliminates special per meal administrative reimbursement rates and modifies the general reimbursement rates in the SFSP.			Unable to measure fiscal impact	
G. STATE ADMINISTRATIVE EXPENSE [3]				
1. Offset for 1987, the State Administrative Expenses (SAE) by the amount of carryover.			Unable to measure fiscal impact	
GRAND TOTAL				$47,629,346*

*COLA: No COLA's have been built into these projections for reimbursement rates.

[1] This subsidy is sometimes referred to as a grant-in-aid to schools to support the basic infrastructure of the school cafeteria.

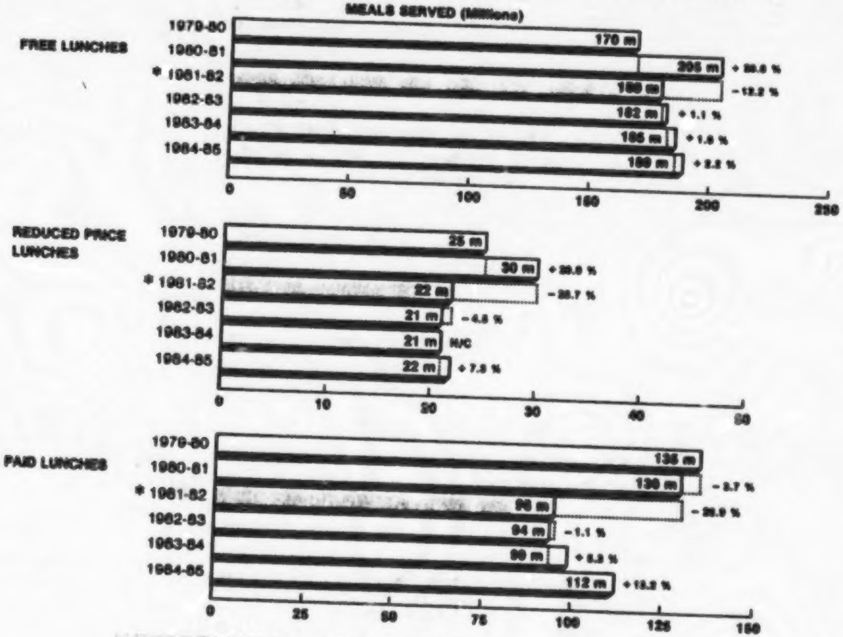
[2] Assumes schools have sufficient storage and freezer space and that they can use the the increased commodity allotment.

[3] Each $1M loss in local assistance funds in 1987 results in approximately $12,000 loss in State Administrative Expense funds (or approximately $571,000) in 1989.

[4] Total number of children eliminated from child nutrition programs: 914,810.

California Department of Education

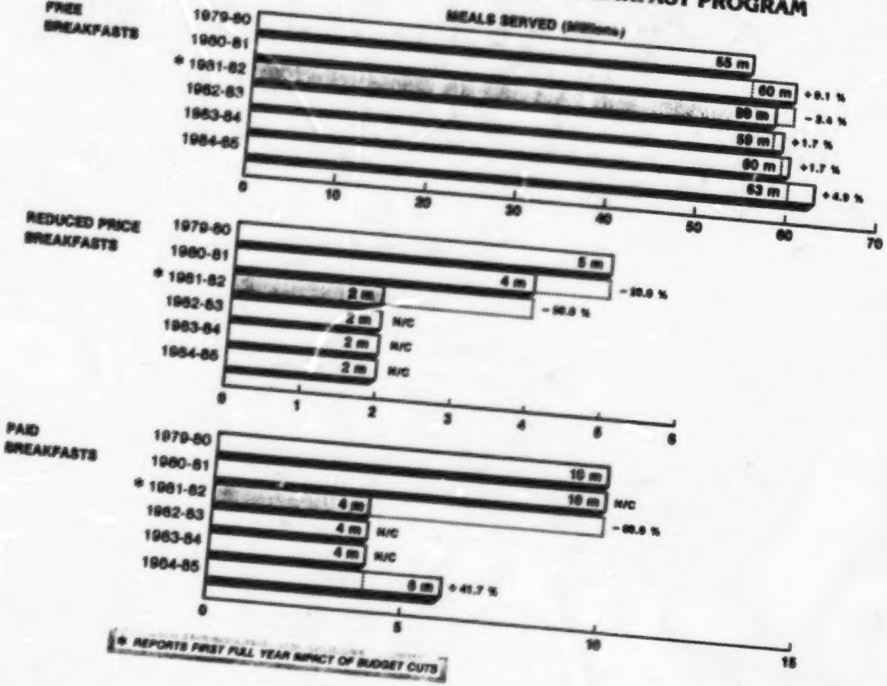
PARTICIPATION TRENDS FOR SCHOOL LUNCH PROGRAM



* REPORTS FIRST FULL YEAR IMPACT OF BUDGET CUTS.

California Department of Education

PARTICIPATION TRENDS FOR SCHOOL BREAKFAST PROGRAM



* REPORTS FIRST FULL YEAR IMPACT OF BUDGET CUTS

Prepared Statement on Behalf of the North Bay Transit Committee, Marine and Sonoma Counties, CA

Good afternoon. We are Michael Setty and Richard Hood of the North Bay Transit Committee.

NBTC is a grass-roots citizens group dedicated to improving public transportation in Marin and Sonoma Counties, which is along US 101 north of San Francisco over the Golden Gate Bridge. We advocate the implementation of efficient rail transit between in Marin and Sonoma Counties, connecting with fast ferries to San Francisco.

We are here today to protest the cuts in public transit and Amtrak funding proposed by the Reagan Administration in Fiscal Year 1987.

We are also here to protest the negative impact on transit and Amtrak that may still result as a result of Gramm-Rudman particularly if no progress is made towards cutting the Federal budget deficit.

TENS OF BILLIONS FOR UNNEEDED HYPERSONIC AIRPLANES—ALMOST NOTHING FOR OUR REAL TRANSPORTATION NEEDS

As average Americans, we don't understand why President Reagan in his State of the Union address wanted to spend billions to develop a hypersonic transport for a two hour trip to Tokyo, while he is also cutting transit, and wants to shut down Amtrak. Why does President Reagan want to get a few executives to Tokyo faster, when millions of Americans could not get across town in two hours or suffer increasing delays and congestion on an overburdened highway system?

While Americans daydream about hypersonic airplanes that only an elite few need or could afford to fly in, or destroying what little ground transportation remains in this country, our competitors world-wide are rapidly and unceasingly improving and expanding their urban transit and intercity passenger systems.

The French continue to build NEW lines for the fastest trains in the world, while the speeds of most American passenger trains is less than that of the 1920's and 1930's.

Japan, Germany, and South Korea continue to expand their public transit systems while the Americans wring their hands over the "high cost" of vastly-improved transit systems.

Even the backward Russians, inefficient economic system and all, continue to improve and build new transit systems.

One thing that all of the Western industrial world has in common with one another except the United States is that they recognize the extreme importance of a high-quality public transit and passenger rail system.

It is no coincidence that the relative productivity and living standards of the rest of the Western World are going up, except in the United States.

A major factor in the increasing competitiveness of the rest of the Western World is that they have much lower overall transportation costs.

For example, the West Germans own nearly as many cars per capita as Americans (23 million with 60 million people; vs. 135 million and 240 million people) but also have a superlative urban transit and rail passenger system.

Germans are able to drive about half as many miles per year as Americans precisely because they do have a realistic choice between autos and transit.

In contrast, here we must drive because there is little choice in all but a handful of cities.

Lower transportation costs directly affect a nation's competitiveness in the world economy.

Instead of being forced to spend upwards of 20–25% of disposable income simply on the basic housekeeping function of maintaining their access to work and other basic human needs, the Japanese, West Germans, Dutch, Swedes, and many others are able to save and invest more, and still enjoy the undeniable recreational benefits of owning cars.

In addition, most Western Europeans, even blue collar workers, are able to enjoy a generally higher quality of life than Americans, who have to put up with massive traffic jams, increasing air pollution, and longer commutes.

SO WHAT SHOULD BE DONE

First, the proposed Reagan budget cuts MUST be rejected out of hand.

Second, Americans of all political persuasions must be realistic and accept the fact that some kind of "revenue enhancement" i.e., a tax increase (preferably on energy), is needed if the budget crisis is to be resolved.

Third, we must recognize the vital importance of transit and Amtrak for our economic competitiveness and efforts to increase national levels of capital, energy, and labor productivity.

This last action means more, not less funding.

"Revenue Enhancement". To assure that all sections of the United States share fairly in the burden of revenue enhancement, we propose a tax package with the following elements: 25-cent per gallon increase in Federal gas tax; $12 per barrel fee on imported oil; built-in inflation and consumption indexing.

By increasing BOTH the gas tax and adding an import fee on oil, all regions of the country would be evenly impacted. On the one hand, the West and South would pay more gas tax since they drive more than the national average.

On the other hand, the colder parts of the United States, the Northeast and Midwest, would pay more for heating oil but less gas tax since they drive less than the national average.

We propose that the $50–$55 billion raised by a split gasoline tax/oil import fee be used the following ways: 80 percent for deficit reduction ($40–$45 billion); 10 percent for public transportation (including existing 1-cent tax on gasoline, $5 billion+); 3 percent ($1.5 billion) for Amtrak expansion and operations, particularly improvements in intercity corridors; 7 percent ($3.5 billion) for increased repair and restoration of streets and highways (total program increase of 25 to 30 percent, aimed where real need is)

As you can see, this proposed program would accomplish a lot and meet many justifiable needs.

The transit and Amtrak proportion has the additional advantage of removing existing spending from the Federal general fund, thus reducing the deficit by a further $3.5 billion.

Under the above program, all transportation modes would be treated fairly, and could be reasonably put "off budget" since all surface transportation modes would receive adequate funding.

Some people will be afraid that even relatively modest increases in transit and Amtrak will be "wasted." However, they have nothing to fear.

Amtrak has gradually increased its revenue from 48 percent of operating costs in 1980 to over 60 percent in 1986, AND has reduced its operating subsidy requirement by over 50 percent in real terms since the Carter years.

The proposed funding would primarily be used for capital and carefully-planned expansion.

It would not be used for featherbedding or wasteful labor practices.

The case of transit is similar. The few new transit lines the United States has built have been successful.

Systems like BART, the Washington Metro, and Atlanta are all carrying hundreds of thousands of daily passengers and rail transit is carrying 25% more passengers than it five years ago.

Still, some people will object about the "high" cost and suggest buses or "privatization" instead, whatever the facts are.

Instead of ending Amtrak or "privatizing" public transportation, the Congress could build a few simple safeguards into the program:

Release of any funding to Amtrak would be conditioned on: (1) true, efficient labor rule reform; (2) a comprehensive 5-year development plan, with extensive public input; and (3) a 5-year ban on any Amtrak investment in speculative high-speed (over 125 mph) rail corridors, until the conventional system is improved and expanded.

Public transit operating subsidies would be EXPANDED; however, the basis for distributing funds would be revised towards efficiency. Funding would be distributed on the basis of a set payment per passenger, not other generally irrelevant factors.

Since smaller cities have fewer passengers, the formula would be graduated for the size of the particular system (more per passenger as a transit system got smaller). If a transit system carried more passengers, it would receive more Federal funds.

For construction of new transit systems, Federal funding would aim more towards cost per passenger mile, and would be biased in favor of generally less expensive, more effective light rail (modern trolley) systems rather than extremely costly subway systems.

Handing out Federal transit operating subsidies to transit systems on the basis of the number of passengers would replace the present crazy-quilt system that has little to do with system efficiency.

Thank you for your Honorable Committee's attention and consideration in this matter of extreme importance. We hope our ideas will prove as useful for you as they would for American productivity and quality of life.

Prepared Statement of George Sandy, Oakland, CA

My name is George Sandy. My residence if 2928 Morgan Ave., Oakland, California 94602. My telephone is 415-530-2590. While I am at present the president of the Congress of California Seniors, I have not had time to discuss with the officers of my organization our collective view of the proposed budget, so I am giving my own ideas on how this Committee and the Congress should decide on the budget for fiscal '87.

Judging by the voting record of our Congressional delegation from this area who sit on this Committee I have no fear but that you will give the needs of the poor and elderly every consideration. Therefore I wish to dwell on another and most onerous portion of the budget, the military appropriation. In 1981, when President Reagan first took office, he said that he perceived a "window of vulnerability in our defenses." He went on to outline a program of military procurement to secure that "window." Now, having built a fortress around the "window" at a cost of approximately one trillion, 300 billions of dollars, it seems that instead of a "window" we now have a "gap." On February 4, 1986, President Reagan said in his State of the Union address that we had a "gap" in our defenses that would require the rest of this decade to close, at a cost of two trillion more dollars with a few billion more or less, depending on how well the Pentagon conducts public business. He explained the need for these tremendous outlays of our money by saying it was necessary to make up for the "years of weakness and neglect" of our armed forces by his predecessors. Thoughtful people must ask themselves, indeed you members of this Committee should give a great deal of attention to the question, who were the "weaklings" who so neglected our military needs that it requires ten years and three trillion dollars just to close the "gap"? If it took years of "neglect" the answer is simple. There were three Presidents: Carter, Ford and Nixon. Then we must include the National Security Council with Kissinger and Brzezinski and the men who were Chiefs of Staff all those years. President Reagan's remarking that they were "weak" and "neglected" our defense impugns their judgment and in a most subtle way, questions their loyalty and devotion to our country. We negotiated Salt I and Salt II during that period. Presidents Carter, Ford and Nixon all felt, and Carter and Nixon said, when the Salt treaties were sent to the Senate, that "parity" had been reached between the United States and the Soviet Union. Nothing happened between 1979 and 1981 to substantially alter that equation. The need to spend three trillion dollars is then, a matter of outlook and of judgment. I do not believe that the advisors who surround President Reagan are better equipped intellectually or morally than their predecessors.

It is time that the Congress behead this monstrous growth of the military budget before the "gap" our President wants to close becomes an unbridgeable "chasm." Refuse the President the funds he demands. If he vetoes the military budget you send him, send it back with another cut of ten billion dollars. If there is another veto, cut another ten billion. The demands for more and more money will cease when the Congress takes firm charge of the public purse and says, "No more."

Prepared Statement of Enola Dickey

Thank you for bringing your Budget Committee Hearing to San Francisco. I listen to C-Span Congressional proceedings, and have attended several hearings. Agencys are interesting and well represented, but I have found little input from individual citizens. The sparse local publicity only a short time before hearings precludes efforts on the part of concerned individuals to prepare meaningful responses, and agendas are already set.

For these reasons I want to thank you for the opportunity to submit this written testimony. I feel it is representative of many senior citizens who express their opinions informally and in meetings among ourselves, but are not active enough politically to make their feelings known [illegible] any organized effort.

I wish to speak to the [illegible] of [illegible] ill, couples who both face the onset of progressive chronic dis[illegible] who are ill, all at a time when diminishing physical cap[illegible] and [illegible] resources are irreversible. Those I have met, accustomed to [illegible] self-[illegible] ways, do not know what services are available, where to go, who to [illegible], what [illegible]ifications exist, or what processes of application are necessary to [illegible] the [illegible] they need. When they do find out, they

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find the budgets have been cut, the services no longer exist, or the waiting lists are so long, as one lady said, "I will either be recovered or dead before my name comes up on the list."

The antidotal example I want to share with you is *not* typical, as this very independent 84 year old lady who lives alone, *did* get help that I am sure is not always available:

After a cancer operation for removal of a cancerous breast, while seemingly recovered, she suffered an infection of the operated area during which time the infected area burst. She was rehospitalized, treated, and released, only to be stricken with a pulmonary infection. Between networking of peer friends, one called the visiting nurse association for information, and we all encouraged her to call her doctor for verification of her need for home care. She ended up in the hospital again. Fortunately this time she reminded her doctor that her husband had been a nuclear physicist associated with the hospital, and her son, an attorney, made sure by long distance calls to the hospital, that she would not be prematurely discharged from the hospital. She was in the hospital for ten days this time, and arrangements were made before she left for temporary visiting nurse care and private housekeeping services.

I must say, this lady who has been active in church and liberal political causes, got more help from members of her senior citizens group who were *more* willing than able to give her the help she needed. Even so, it took the five of us, again networking, to find out about, encourage her to ask for help and to supplement what was not available after she was discharged from the hospital.

We found visiting nurse home care was available on a temporary basis only through Medicare, but meals on wheels has a waiting list for their services and transportation to doctors to be practically non-existent.

The problems with this kind of peer group help is that many senior citizens are in need of help themselves, crippled with arthritis, susceptible to infections, no longer drive, and are unable to wait on corners for buses in inclement weather, or climb the hills two or three blocks away from buslines. Neither are they able to physically help an ill person walk to the bath room or give them baths. It is an iffy kind of care not the most reassuring to someone unable to take care of themselves.

A very funny O. Henry scenario could be written about the attempts of the five of us to take care of the gaps in her extended convalesence care, if it were not so typical of the tragic circumstances many older people fine themselves in today. (see attached study made at the University of California Medical School, San Francisco. Pg. 7) Between us, we got her home, took inventory of the food on hand; one of us, crippled with arthritis, took the bus to do grocery shopping; another, caring frail lady, stayed with her the first night home. Between us we have taken prepared food, sometimes staying with her for a meal, other times leaving it for her convenience.

Seeing my peers experiencing these needs, along with the memory of my mothers prolonged, progressive, terminal illness, creates an anxiety that is with me every day. This is the fear that either my husband or myself may need the kind of long term care that we may be unable to give each other, and that the surviving one may become so physically, mentally, and economically pauperized that our lives will no longer be worth living.

If it becomes necessary for either one of us to become a consumer of long term institutional health care; the income that now just barely supports the both of us on the edge of comfort and economic security, would not support one of us in a nursing home. Most nursing homes now require one years payment in advance for any consumer who is expected to need Medicaid or Medi-Cal to finance their care. One-half of all our assets would automatically be used to qualify the consuming spouse, leaving the non-consuming spouse only one-half of their present economic security.

We do not feel this cost, presently between $20,000 and $30,000 a year should necessarily be the responsibility of the Government. We do not want this kind of care to prolong our lives, or to be warehoused waiting to die. We have both signed a Durable Power of Attorney for Health Care to document our wishes.

However, this still leaves a potentially lingering period of time during which either of us may face irreversible changing conditions of physical, mental and emotional deterioration before death, when we may be incapable of caring for ourselves or each other. We may need some kind of supportive help. There is presently no long term, publically financed supportive help outside of institutional care.

President Reagan's promise of some kind of health insurance outlines no plan for paying for it, is unlikely in this time of budget cuts, and is more likely to be slanted toward the health care industry than toward home care. We want to avoid suffering alone without professional care, suffering in nursing homes with institutionalized care, or suffering the indignities necessary to provide ourselves with institutional care we do not want. Presently the only alternative we see is suicide, when the time comes that our quality of life is made more burdensome by disease, than release would be. I personally know of two people who have taken this route, and one other whose unsuccessful attempt left her in the vegative state she was trying to avoid, and have heard many others say they fear lingering illness more than they fear death.

In looking for alternative solutions, I have researched articles in Social Work, Journal of the National Association of Social Workers from 1978 to 1984 on the subject of Health Care for the Aged. Conclusions reached in reports of many pilot programs undertaken to provide alternatives to institutionalized care were that: supportive community services and supervised group housing, as well as more supportive professional care in peoples own homes were cost effective, and delayed the need for more costly institutionalized care. Another conclusion reached was that, from a clients point of view, four necessities were needed for de-institutionalization and community living. They were money, housing, medical care, and transportation.

We still see, sleeping on the streets and in the parks of San Francisco, the homeless street people who gravitated to urban areas when they were thrown out of the mental hospitals with none of these necessities for successful community living, when Governor Reagan closed so many of the mental hospitals in California. This was not cost effective by either humanitarian or economic standards.

Another economic side effect of the pauperization of the elderly to pay for the health care they say they do not want, is that it denys parents the capability to bequeath and their children the capability to inherit, no matter how small their estate. It is those with the least to give, even a family home, this hurts the most. Family homes can be legally sold, if over allowable value, and the proceeds used to finance health care, if no longer occupied by one member of the owner couple, even if income reduced to half resulted in inability to maintain it.

Even though our public health and social policies are ranked far below economic policies on the present priority list; no one would even think of suggesting that, within families, personal inheritance should supercede health care for elderly family members.

However, the ability to bequeath and the ability to inherit has emotional values fundamental to the American Dream of upward mobility. Parents want to make a better life for their children. Even in the Soviet Socialist Republic, it was found necessary to allow accumulation of assets and inheritance to provide work incentives. Inheritance in our country in the middle class is now being threatened by developments in health care technologys, longer life spans, the costs of medical care, and the increased geographical separation of adult children and their parents.

I am aware of, and support the legislation which addresses the long term health are of Alheizmers disease, and the California Assembly Bill 2931 which includes other mental disabilities. This still leaves other disabling illnesses such as stroke, heart attacks, COPD (the group of chronic obstructive pulmonary diseases) and aids without long term supportive help for any alternative long term health care.

My question is this: Would it be possible for more consideration to be given for long term supportive care that would allow de-institutionalized care such as visiting nurses, paramedical and doctors home care, transportation to doctors offices or hospitals, meals on wheels, telephone monitoring for those living alone, and housekeeping services through a Comprehensive Federal plan? Instead of an umbrella of defense satellites, how about an umbrella of health care?

I wonder what kind of society I am leaving for my daughter when care of the children, the mentally ill, and the aged are left to chance or to nonexistent charity at the times of life when these individuals are least able to care for themselves; while we continue to invest our human talents, economic resources, and scientific research in weapons of destruction and war techniques which we distribute so generously to the rest of the world?

I suggest that the deficit would be better addressed by cutting the military budget including SDI, Chemical weapons, LIC (Low Intensity Conflict) and CIA covert activities in other sovereign nations. Any surplus funds could be used to provide for the real national security of our country: education, unpolluted air to breathe, unpoisoned water to drink, carcegenic free soil on which children can play, farmers can grow safe food and parents can build houses, housing for the homeless and care for the mentally and physically disabled, and conversion to a peace time economy in which scientific research could be directed to humanitarian purposes, even if government subsidies are necessary to get this kind of conversion started.

If tax receipts are not sufficient to meet these human needs, I suggest those members of the corporate sector, who are exploiting and poisoning our natural resources, and those who profit from no-risk government subsidized defense contracts while the small business administration cuts loans to those willing to take their own risks; be required to pay their fair share of taxes.

Thank your for giving me this opportunity to express my opinion and anxieties about the budget priorities of the Reagan Budget. I hope you members of Congress, who I know are aware of those obscene misdirections of resources, can persuade your colleagues in both the House and Senate to cut the defense budget and give more consideration the caring for our own people.

[From the San Francisco Chronicle]

STUDY FINDS ELDERLY IN CRUEL HEALTH DILEMMA

(By David Perlman)

A new Catch-22 is striking elderly and sick people as the federal government pushes its efforts to slash the costs of health care, researchers charged yesterday.

Rules that curb Medicare and Medi-Cal payments are forcing large numbers of aged patients out of hospitals far too soon and sending them to community agencies whose own services have been cut, a University of California report said.

The major cause of the enforced shift out of hospitals and into purely medical-oriented agencies and home services is the new Medicare financing system known as DRGs—for Diagnostic-Related Groups.

The idea is to pay hospitals fixed prices for specific illnesses and treatments so that the hospitals will make money if they can discharge their patients quickly, and lose money if they keep the patients longer than necessary.

With hospital charges averaging $1,000 a day, the pressure to shorten the stay of every patient is strong.

The result, according to Carroll L. Estes, chief of the UC research team, is that hospitals are forced to move older patients out "sicker and quicker"—and into nursing homes and home health programs that can no longer provide adequate care because of budget limitations.

At San Francisco's Thirtieth Street Senior Center, for example, an 88-year-old man with Parkinson's disease who suffered a recent stroke must be cared for by his 75-year-old wife, who has cancer and an ulcerated leg. Each has been hospitalized and discharged.

They have just enough income to get by, but too much to qualify for welfare. They receive four hours of professional home health care a day, but now the Senior Center's declining funds are forcing social workers to limit the couple's home care to three times a week. No one knows who will care for them the rest of the time.

That story typifies the focus of a new institute for Health and Aging at UC San Francisco, where Estes is the director. The institute is completing a three-year study on the effect of changes in federal health care financing over the last five years.

Yesterday, Estes and her colleagues released a report detailing their study of 335 agencies in 32 communities in eight states.

The federal fund cuts, Estes said, have created a "highly competitive market situation" that is dismembering traditional nonprofit social service organizations all over the country.

The agencies are forced to cut back on the nonmedical care they once offered their sick and elderly clients, and are trying to fight off competition from new profit-making companies that are taking over the medical services that government funds will still finance. The number of those companies has increased fivefold in the past five years.

Hospitals, too, are joining the competitive battle. Estes said, by developing a variety of specialized and strictly medical services for which they know they can stay in the black—while they cut back on money-losing health care activities.

Because of the fund cutback, a million patient-days of hospital care were eliminated last year and many unnecessary hospital stays have been curbed, Estes said. But all too often, elderly hospital patients without private insurance are forced out much too soon as doctors and administrators bow to rising economic pressures.

Once they are discharged from hospitals, Estes said, the elderly sick face limited access to post-hospital care, and home health services often provide only those elements of purely medical care for which the government will pay.

Government no longer pays for such vital nonmedical services as nutrition, personal and homemaking care of sick housebound patients and essential transportation, Estes said.

In San Francisco alone, more than 200 elderly homebound patients who cannot cook for themselves are on the waiting list for Meals on Wheels, a federally financed home food service.

"At our senior center," said Veronica Rodriguez of the Thirtieth Street Senior Center, "we are forced to dial 911 more and more frequently, because elderly people are coming in who are too frail and sick and who need to be taken care of urgently."

All over the country, according to the UC study, health care agencies are reporting dramatic increases in the numbers of clients seeking their services—particularly in those over 75.

"The most likely reason for the increased demand appears to be cost containment pressures which encourage early hospital discharge of the elderly patients," Estes said.

Hadley Hall, executive director of the Visiting Nurse Association of San Francisco, blamed the reduction of care squarely on the federal fund cuts.

Health insurance systems that handle federal and state funds "deny, delay and prevent home health care services—and it's nothing short of a scandal," Hall charged.

PREPARED STATEMENT OF LULA TERRY ON BEHALF OF OPEN, INC.

This is a brief statement of what the Organized People of Elmhurst Neighborhoods have been able to accomplish with the funding of CDBG grants, and the impact of the elimination or drastic cuts would have on programs.

O.P.E.N. Inc. Organized People of Elmhurst Neighborhoods is a non-profit community organization consisting of seven(7) neighborhood associations. It has been incorporated under the State of California Code of Corporate Law since 1978. Its primary service area is the Elmhurst East Oakland District, but it has been instrumental in the development and coordination of project city wide in the city of Oakland. Members of the Board of Directors (14) in number, are not compensated for their services. But work as hard and diligently as salaried persons.

The organization; has focused on four (4) major programs/projects; Priortized as following.

DESCRIPTION OF PROGRAM

1. Housing.
2. Employment and Employment Training of persons not possessing marketable skills in today's job market/work force.
3. Crime deterrent and Prevention
4. Arson Prevention and Education in fire prevention

DESCRIPTION

1. Housing Program/Project

A—Basic objective is to improve the living conditions of the very low, low and moderate income persons in the community, by rehabilitating currently boarded up or abandoned, and building new affordable houses on identified vacant, blighted lots.

1. This Program has been subdivided into three(3) phases (1)Proposal writing and submission to the city of Oakland for funding for the acquisition and rehabilitation, and the building of the proposed new housing units
2. Approval of; the City of Oakland of the proposal, and award of the initial Grant to hire, consultants, architects, surveyors, Building Contractors to implement the prog. am
3. Marketing-selling of these units to persons/families determined to meet O.P.E.N.'s criteria of eligibility

WHERE WE ARE

O.P.E.N. is currently in phase two (2) with an initial grant of $165,000. An additional $135,000 is required to complete phase two (2) Impact of losses of Funding: The initial investment of $165,000.00, which is 55% of the total cost of the program will be lost by the city.

DESCRIPTION

2. Employment and Employment Training of persons not possessing marketable skills in today's job market.

WHERE WE ARE

We are currently employing four(4) young adults in a program that is self sustaining, but future funding is required to update current equipment and to acquire a business environment that is suitable for further involvement of additional unemployed persons.

Funding/monies needed for the establishment of this program as self sustaining $350,000.00

Impact of loss of funds, large welfare roll, low self-esteem, higher unemployment, non trainable persons, due to not having money to get training.

3. Crime Prevention/Deterrent; Safety Patrol/Senior Citizens Escort Service. The extra eyes and ears for the Police Dept in the protection and safety of citizens and property, and as a deterrent to other crimes. Also serves as non-charge security at public affairs/functions. This Program has never been funded by public monies, but might need to be in the future, if we continue, not so. We are self-sustaining saving city millions

4. Arson Prevention and Education: A—Involves the surveying of various properties in the community to identify potential fire hazards and reporting the results to the appropriate persons, agencies-City officials, city manager Fire dept. Police. Property owners and neighborhood associations. This program also focus on the education of students and the public about arson problems and how to handle them. Funded by the Ford Foundation for $18,000, O.P.E.N. was chosen to do the Project over all other organizations in the city of Oakland

WHERE WE ARE CURRENTLY

O.P.E.N. will be submitting a request to the city of Oakland for $30,000 to continue the program city wide, since the job has gained such wide recognition for doing such a splendid job with such small amount of money. Again serving city.

Impact of cut in CDBG would greatly decrease the possibility of receiving funds for such a much needed program. Done so well by Volunteers

We O.P.E.N. recommend the cutting of Staff since administration cost exceeds the cost of programs/projects and let the non-profit organizations in each District administer the programs, as they have demonstrated it can be done quite efficiently at a much lower cost, preventing deficits in city budget.

[Whereupon, at 12:15 o'clock, the hearing adjourned.]

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